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Fast Track - File Created 8/12/97: Little Rock Speech [1]

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Now

- Our gov't has responsibility to take a leadership role and create for you a level playing field from which to compete.

- POTUS truly believes ~~that~~ enemy of our time is inaction.
- Each of you know, he is activist President who wants to get in the game and compete, but be successful. not only
- We hope you will help us in this regard.

- The Pres. invites you to join this debate, for ~~the sake of~~ future of your companies, for your workers, and for our economy.

- You're doing your part in the global economy. Our workers are the most productive and our products are the most competitive in the world.

So

- ~~To be successful in the trade debate~~, we must get these facts out on NAFTA and on trade in general.

- (Thomas McCauley)

- In US, the issue remains devisive, and we need your help to be successful.

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- Despite doomsday warnings about what would happen under NAFTA, US jobs have not been destroyed & US manu. base has not weakened.

- Instead, total NAFTA trade has increased, ~~US exports and~~ our employment levels have risen, and the US economy remains strong.

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- Congressionally mandated report out July 1st
  3 yr report card on NAFTA
- Here are some facts that we already know:
- Total North Am. trade ↑ 43% since passage NAFTA
- Mexican tariffs dropped from (avg) 10% to 6%
- US exports to Mexico grown 37% today ~~all~~ time high
- " " " Canada " 33% " " .
- Last yr. - 44 US states (incl. AR) reported growth sales to Mexico.

So,
- We must lead, & we must seize opp.
  ~~help~~ that exist. shape changes
- (Dinner w/ Cong.)
- I truly believe that a key to winning fast track is reassuring Congress and public that NAFTA is a good deal.
  ~~(dinner w/ Cong.)~~ (

- So it's clearly in our interest to get from Congress the auth. to negotiate & conclude new trade agreements w/ Chile & others

- Question is no longer "is econ. integration happening" It is -- and at a rapid pace -- w/ or without us, the question is whether lead or be left behind. [illegible]

- ~~Without fast track, we will surely miss a tremendous opportunity~~

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- ~~MERCOSUR certainly isn't waiting for US to engage -- currently neg. free trade agre w/ EU~~

- Chile, the 4th amigo, (who desperately wanted to join NAFTA) has formed an alliance w/ MERCOSUR, and has separate agreements w/ Mexico & Canada - ~~Chile has signed over 30 bilateral trade agreements and, in 94, they joined APEC~~

- Canada's trade pact with Chile gives them an 11% adv. over US companies.

- ~~FACT - Lat Am tariffs barriers (on avg.) 4x higher than US tarriffs~~

- Don't forget about Europe: today MERCOSUR countries buy more from Europe than the US, and MERCOSUR is looking to solidify that relationship by concluding a trade agreement w/ the EU.

~~And trade among the countries of our hemisphere has taken on a new dimension.~~

- Absent fast track auth, the nations in our hemisphere are turning away from the US and toward each other to conclude new agreements.

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- Can not & should not take these mkts for granted, b/c our competitors are circling like hungry wolves!
- ~~As we continue to debate on whether trade is good or bad for our country, our competitors are moving ahead without us.~~
- Asian countries sniffing around in our back yd.
  - PM's of Japan, China, & Tiawan and Pres. of South Korea have traveled to South Am this yr. looking for opps.

- LAT AM is 2nd fastest growing region ~~in~~ ~~the~~ ~~world~~ on earth.

- In '96 -- fastest growing mkt for US exports
- Last yr. - just as much to Brazil ($11 bill) as China - despite 1/7 size
- 40 cents of every export dollar comes from LatAm and LatAm is the only region where we produced a trade surplus in '95 & '96.
- [If you consider] 1/2 pop. under 17...
- 2010- Japan/EU combined

- Commend you for selling AR products in growing mkts

- These are good jobs - pay 15% more than non-trade related jobs

- Consider that 95% of world's consumers live outside US, the possibilities for growth are tremendous

* McLarty, as POTUS' spec. envoy believes,
- Nowhere ~~are~~ the opportunities ~~are~~ more plentiful today for US companies than in LatAm.
- Of course, that is what conference is all about...

- 1st, we must convince Congress & public that trade agreements <u>don't</u> <u>cost</u> <u>jobs</u>, <u>they</u> <u>create</u> <u>jobs</u>.

- Over last 4 yrs, <u>exports</u> created 1.4 mill new jobs. <u>AND</u> - <u>exports</u> accounted for <u>25%</u> of our total economic growth.

- Today, more than 11 mill. US jobs are supported by exports -- including 1 in 5 manu. jobs

- President realizes this & knows we must work hard to get fast track

- Remains <u>fully</u> committed - intends to dedicate full resources of the White House to this effort & he believes, as do I, that we will be successful.

- Here's what POTUS believes we ~~need~~ must do to be successful.

- Many members of Cong. are skeptical & question whether new trade agreements would help or hurt US economy.

- ~~Brit. historian Thomas McCauley:~~
~~"Free trade is one of greatest gifts a gov't can give its people, yet it is unpopular in almost every country."~~

- ~~[illegible]~~ Today, This issue remains devisive. Creates Ideological split in both political parties.

- POTUS - hopes this yr - definitely by Summit

- Getting fast track authority from Congress is a top priority of the Pres.

- Can't take it for granted that Cong. will vote to give POTUS fast track.

- 1994 at Summit - stood w/ 33 leaders
- Agreed to integrate hemis. into super trading bloc FTAA by 2005 - (NEW REALITY)
- Agreed 1st step negotiate comp. ~~ftrade~~ agreement w/ Chile → bring Chile into NAFTA as 4th amigo

Pres Ford

- But before Chile will come to ~~table~~ to negotiate - must ~~have~~ fast track - (explain)

- Like to talk about future of US Govt policy toward trade in W. hemisphere. - $\boxed{\text{Amb. Check}}$ - overview
- Chosen topic b/c futures (our policy & our companies) ~~engagement~~ engagement in region are linked & b/c future is uncertain.
- First, what POTUS hopes to accomplish in this ~~hemisphere~~ area

— T.Y. — panel (Lon, etc)
Jim Cheek

— Apology for Mack

— Good to be back in LR

→ Truman

· Rush, Deacon
- ~~Dean~~ Goolsby
· Hartsell Wingfield
Lon staff · Lauren McDonald
· Commercial officers
- 10 lodges
· Dean Goolsby

# *MERCOSUR's Potential Market Is Now Over 200 million People With a Combined Economy of Nearly $1 Trillion*

**By Randy Mye and Lorena Palagonia**
***Office of Latin America and the Caribbean, U.S. Department of Commerce***

Since formal inauguration of the MERCOSUR integration process on January 1, 1995, the progress in implementation has been surprisingly smooth, notwithstanding some very thorny disagreements in key sectors. This undertaking was initiated in a restrictive framework by Argentina and Brazil in 1986 and now includes the economies of four countries representing a combined gross domestic product of about $800 billion, or 65 percent of South America's GDP and 52 percent of the entire GDP of Latin America.

The recent decision by Chile to associate with MERCOSUR on October 1, 1996, and the apparent decision by Bolivia to establish a similar relationship to this trade area, expands the potential market to 212 million people with a combined GDP of nearly $1 trillion. The immediate impact of these two countries associating with MERCOSUR opens interesting avenues for additional infrastructure projects. It also means increased export opportunities for the Pacific Basin for Argentina, and later other members of MERCOSUR.

## *MERCOSUR*

The Treaty of Asuncion, which provides the legal basis for MERCOSUR, was signed in 1991 between Brazil, Argentina, Paraguay, and Uruguay. The treaty established the goals to be accomplished in creating the common market, eventually allowing for the free movement of goods, capital, labor, and services among the four countries. The agreement envisions no central institutions in its initial stages. However, as the countries institute policy harmonization goals, there will be a tendency for greater centralization in the decision-making institutions. The members established a series of working groups to deal with a number of issues that have to be resolved before the goals of the treaty can be achieved, including industrial standards (ISO), health/environmental standards, macroeconomic policy harmonization, energy integration, and physical infrastructure objectives. However, there are no clear indications that the members will create MERCOSUR institutions similar to the European Common Market institutions — clearly MERCOSUR members are wary of sacrificing sovereign control over sensitive tax and other policy instruments.

The treaty envisioned the possibility of other countries joining, but without accepting the common external tariff. Chile's agreement to become an associate member allows it to retain its external tariff of 11 percent on virtually all imports from non-members of MERCOSUR (Chile maintains a series of reciprocal preferential tariff agreements with other countries, mostly in Latin America). MERCOSUR discussions with Bolivia, already underway, are expected to lead to associate membership in the next six months.

The Chilean agreement calls for immediate free trade for some 700 tariff categories (about 332 MERCOSUR products will enter Chile duty-free) and gradual elimination of intra-market tariffs in 18 years. A significant, but possibly overlooked, aspect of the Chile agreement is the physical integration protocol, which allows for the development of specific cross-border projects, mostly mining and infrastructure, that can be undertaken immediately without extended negotiations between the governments of the affected countries. This protocol may facilitate major mining projects that would otherwise be subject to difficult and time-consuming negotiations.

## *Common External Tariff*

Goods entering any of the four MERCOSUR countries are subject to a uniform tariff. Since implementation on January 1, 1995, the members adopted a common external tariff (CET) ranging between 0-20 percent that covers approximately 85 percent of the tariff schedule (approximately 9,000 items). Every 90 days each country is able to substitute for 50 items on its respective exception lists; nonetheless, each item would remain subject to the annual tariff rate adjustments required to bring the level to the agreed CET rate. The remaining 15 percent fall under a commonly agreed "exceptions" category. Included are approximately 900 capital goods items and 200 telecommunications/informatics products. Two sectors are subject to separate treatment under MERCOSUR agreement — autos and sugar.

The exceptions list for Brazil concentrates on the chemical and petrochemical sectors, milk products, and raw materials for the textiles industry. The Argentine list of exceptions includes goods from the chemical and steel sectors, the paper industry and footwear. These items will be covered by the CET no later than 2006. The 14 percent tariff for capital goods will enter into force in 2001. This common tariff will be implemented through the gradual harmonization of member countries' tariffs. The CET for informatics will be established in 2006 at 16 percent, with tariffs harmonized in the same fashion. The Paraguay and Uruguay exceptions are larger in number and concentrated in agriculture goods and other diverse categories.

There are also national lists of intra-MERCOSUR trade exceptions. Each

# MERCOSUR

**Brazil's Cardoso, Argentina's Menem, South America's future**

## The end of the beginning

*Mercosur has achieved surprisingly swift success. But there is plenty more to do, writes Michael Reid*

THINK back 20 years, and the southern part of South America was both an economic backwater and an armed camp. Its countries were ruled by military dictatorships, eyeing each other with suspicion and hostility, even threats of war, across borders sealed against all but a trickle of trade. Think back just seven years, and the dictatorships had given way to civilian democracies, but (Chile apart) the region's economies remained wedded to beggar-thy-neighbour protectionism, and were prostrated by inflation, instability and debt.

And now look five years ahead. Barring accidents, by 2001 an integrated, growing and relatively open market of at least 240m people, with an output of well over $1 trillion, will stretch from the Brazilian north-east to Chile's Pacific coast, over what can be called (taking some geographical liberty with Brazil) South America's southern cone.

At its heart, Brazil and Argentina, which between them account for more than half of Latin America's GDP, should have a common foreign-trade policy and, for all but a handful of products, a common external tariff, with increasingly convergent, and market-friendly, macroeconomic policies. United with them in a customs union will be their small neighbours Paraguay and Uruguay. And most, maybe all, of the rest of South America will be linked to this core by free-trade agreements.

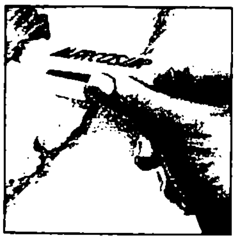
As investors, both local and foreign, exploit the potential for growth, scale and specialisation offered by this new market, this southern cone will be emerging as an agribusiness and mining superpower, with a diversified and modernised manufacturing industry fuelled by cheap and abundant energy. It will have forced its way back on to the world economic and business map, after an absence of two generations, and be preparing, led by a once self-doubting but already confident Brazil, to take its place, with the rest of Latin America, the Caribbean, Canada and the United States, in a free-trade area, starting around 2005, that will embrace the entire western hemisphere.

That, at least, is the prospect. Some of it has happened already. The big push came from the formation of the southern common market, Mercosur (in Spanish; Mercosul in Portuguese), by Argentina, Brazil, Paraguay and Uruguay in 1991. True, some of the change began, and would have gone on, anyway. Latin American economies could not stay stuck for ever in the age of state industry, state intervention and isolated markets. And Mercosur is only

**Four members and a friend**

| 1995 | Population m | GDP $bn | GDP per head $ | Total exports $bn | Total imports $bn |
|---|---|---|---|---|---|
| Argentina | 34.3 | 282.7 | 8,250 | 21.0 | 20.0 |
| Brazil | 156.0 | 676.0 | 4,350 | 46.5 | 49.7 |
| Paraguay | 4.9 | 8.9 | 1,800 | 2.0 | 3.4 |
| Uruguay | 3.2 | 17.2 | 5,400 | 2.1 | 2.7 |
| Chile | 13.9 | 67.3 | 4,850 | 16.0 | 14.7 |

Sources: EIU; National statistics

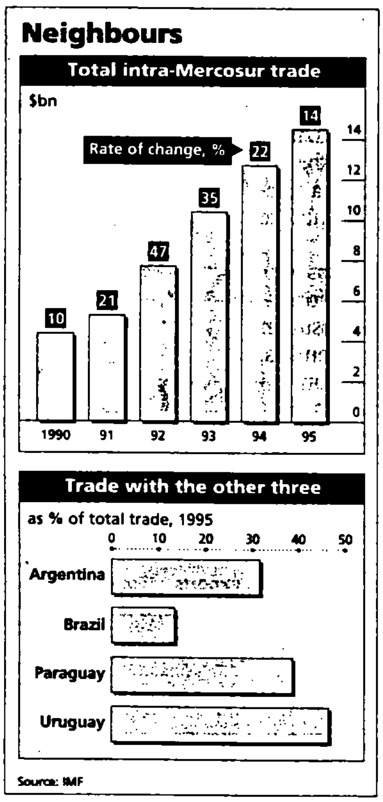


one in a web of international agreements—31 of them, by the count of ECLAC, the United Nations Economic Commission for Latin America and the Caribbean—signed since 1990 to liberalise trade within the region. Meanwhile, older but moribund sub-regional groups, such as the Andean Group—soon to be "Community"—are reviving. Yet Manuel Marin, the European commissioner who handles relations with the region, is right to call Mercosur the "hard kernel" of its integration.

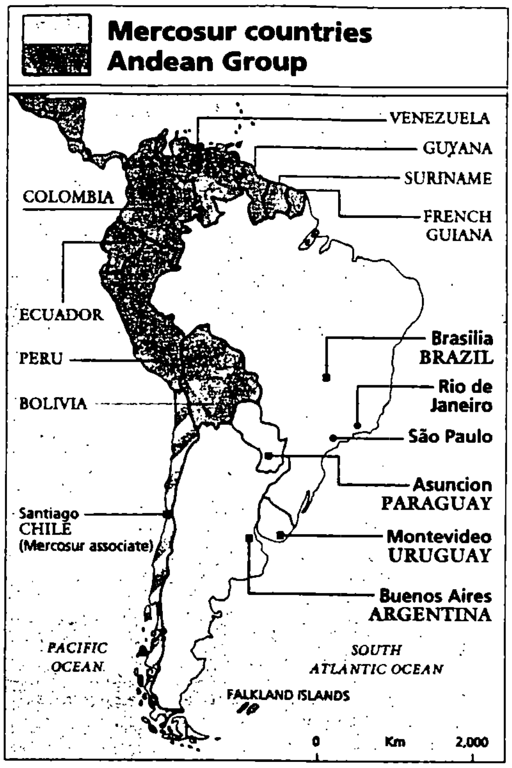
This is the world's fourth-largest integrated market, after NAFTA (the North American free-trade area), the European Union and Japan. It is a dynamic one. Intra-Mercosur trade has soared; combined GDP, despite ups and downs, has grown by an annual average of 3.5% since 1990; and at $5,000 its income per head is 30% above that of Latin America as a whole. Above all, Mercosur is seen throughout the region as the leader in the field.

It is still not yet a full free-trade area, let alone a customs union, applying a common external tariff; its "common market" tag expresses only an aspiration—toward free movement not just of goods but of services, capital and labour—not fact. Even so, this is the world's most ambitious scheme of regional integration since the birth of the European Economic Community in 1957. Mercosur offers a framework and a timetable (and a snappy brand-name that has become an attractive visiting-card in the rest of the world). And it has won political commitment: despite some backsliding and a few tense moments, its members, by and large, have stuck to their undertakings and kept the process moving.

It is too early to say with confidence that Mercosur is irreversible. Much can yet go wrong: Latin America's history has seen many visionary schemes for integration that foundered on local rivalries, economic turbulence, outside meddling or their own flawed economic assumptions. But there are two basic grounds for optimism. The first is that Mercosur is the creation of democratic governments; it can fairly be seen not as a short-term expedient but as a long-term project for integration between the peoples they represent. Second, it is based on a commitment to trade liberalisation, and is being taken forward by governments pledged to broadly sound macroeconomic policies that have tamed inflation. Earlier integration schemes, such as the Latin American free-trade association of 1960, did increase trade among members, especially in manufactures, through the granting of selective bilateral preferences. But their intention was only to widen protected markets, in an ultimately doomed effort to make import-substitution work better. In contrast, Mercosur's integration is predicated on market opening and export-based growth; "open regionalism", as it is known.




The clearest single measure of Mercosur's progress is the growth in




trade that it has prompted. From $4 billion in 1990, trade among its four members more than tripled to $14.5 billion by 1995. There is plenty of room for more: in 1995, intra-group trade amounted to only 1.6% of Mercosur's GDP, compared with 4.5% for the NAFTA countries and 14% for the EU. Trade has flowered partly because the end of inflation, followed by economic growth, produced consumer booms, first in Argentina and then in Brazil. But another reason is that Mercosur has lifted artificial barriers that had long restrained commerce between those two countries. Between them, they account for 97% of Mercosur's GDP, and they have at last recognised that they are natural trading partners.

### The assumptions changed in Asuncion

When in 1494 Queen Isabel of Castile and King João II of Portugal made the Treaty of Tordesillas, fixing a boundary between their respective empires at a point 370 leagues west of the Cape Verde islands, they created what turned out to be one of history's less porous frontiers. Though groups of marauders, and then settlers, pushed Brazil's frontier further west into the Amazon, the Mato Grosso and to the river Uruguay, there it came to rest. While ex-Spanish South America fractured into separate countries after achieving independence in the early 19th century, Brazil remained united. In the south, there were two bits of unfinished business. A struggle between Brazil and Argentina for control of the territory north of the river Plate was settled when Uruguay emerged as a buffer state, after British mediation. And Brazil, Argentina and Uruguay ganged up in the 1860s in a terrible war which humbled an expansionist Paraguay.

Thereafter, the two big neighbours paid remarkably little attention to each other (except on the football field). Argentina rose as an agricultural power, and then declined; Brazil got on with the business

## What Mercosur has done

### The free-trade area

In a transition phase between 1991 and 1994, Mercosur's members cut tariffs sharply on trade with each other; today most goods go tariff-free inside Mercosur, though there are some far-from-trivial exceptions: cars and sugar (which are subject to special arrangements) and groups of products considered sensitive by each member, 950 items for Uruguay, 427 for Paraguay, 221 for Argentina and 29 for Brazil. Internal tariffs on these products are to be cut progressively to zero by 2000 (1999 for Brazil and Argentina), by which time cars and sugar are supposed to be brought into the free-trade scheme. But, unlike NAFTA, Mercosur as yet lacks agreements to achieve eventual free trade in services, or to deal with such issues as intellectual property and government procurement.

### The customs union

Against most expectations, at the end of 1994 Mercosur agreed to embark on the second stage of its integration project: to create a customs union, in which, as in the European Union (but not in NAFTA) members apply a common external tariff (CET) to imports from third countries. From January 1st 1995, a CET set at 11 different levels, from zero to 20%, was applied to most imports. In this case, a larger group of products has been temporarily excluded: each country was allowed to exempt 300 items (399 for Paraguay), whose tariffs will converge (through annual increases or decreases) at the CET by January 2001 (2006 for Paraguay, which will have to raise its tariffs). A second group of products also is subject to special arrangements: tariffs on imported capital goods are to converge by 2001 at a CET of 14%, and on computers and telecommunications equipment at 16% by 2006. During 1995, two further changes were made. To support its anti-inflation plan, Brazil was allowed temporarily to cut tariffs below CET levels on 150 products (since reduced to ten), while the others were allowed to do this for 50 products. Secondly, because of global financial markets' concern over fiscal and balance-of-payments deficits in developing countries after the Mexican crisis, Argentina imposed a general 3% duty on imports from outside Mercosur, besides raising its tariffs on capital goods and telecoms equipment; while Brazil increased its list of CET-exempt products by 150 for a year, and raised tariffs on consumer electronics and cars.

### Towards a common market

In December 1995, Mercosur agreed a five-year programme under which it hopes to perfect the free-trade area and customs union. This involves standardising many trade-related rules and procedures, and moving towards harmonising its members' economic policies. But since there is no commitment to allow free movement of labour, creating a true common market remains a fairly distant aspiration.

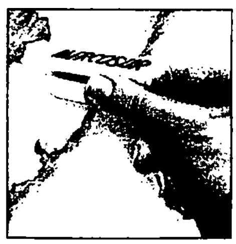
### Free-trade agreement with Chile

During 1996 tariffs on most Mercosur/Chilean trade will be cut on both sides by 30%; from 2000 they will then fall to zero over four years. A small group of Chile's food and agricultural imports from Mercosur will have special treatment: tariffs on most of these will start falling in 2006 and reach zero by 2011, though wheat, flour and sugar will retain their existing tariffs (from zero to 31%, depending on world prices) until at least 2014. To qualify for tariff preferences, goods must have Mercosur or Chilean content of at least 60%.

of filling its huge territory with people and industry. Until 1985, apart from a couple of border encounters, only three Brazilian presidents had ever visited Argentina, and only two Argentine rulers had made the trip the other way. Sporadic attempts to increase bilateral trade bore only modest fruit, in the face of military and political mistrust.

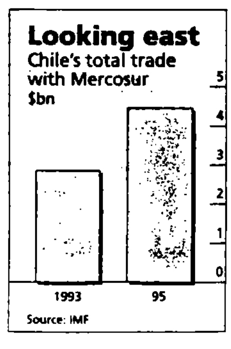
That changed when civilian governments took charge again—in Argentina in 1983, in Brazil in 1985—after long periods of military rule. The two new presidents, Raul Alfonsin and Jose Sarney respectively, signed agreements aimed first at strengthening democracy and reducing military tensions; by allowing mutual inspection of nuclear facilities, for example. But they also tried to revive sick and still-protectionist economies through selective bilateral trade preferences, in the form of sectoral agreements, while maintaining restrictions on imports from other countries.

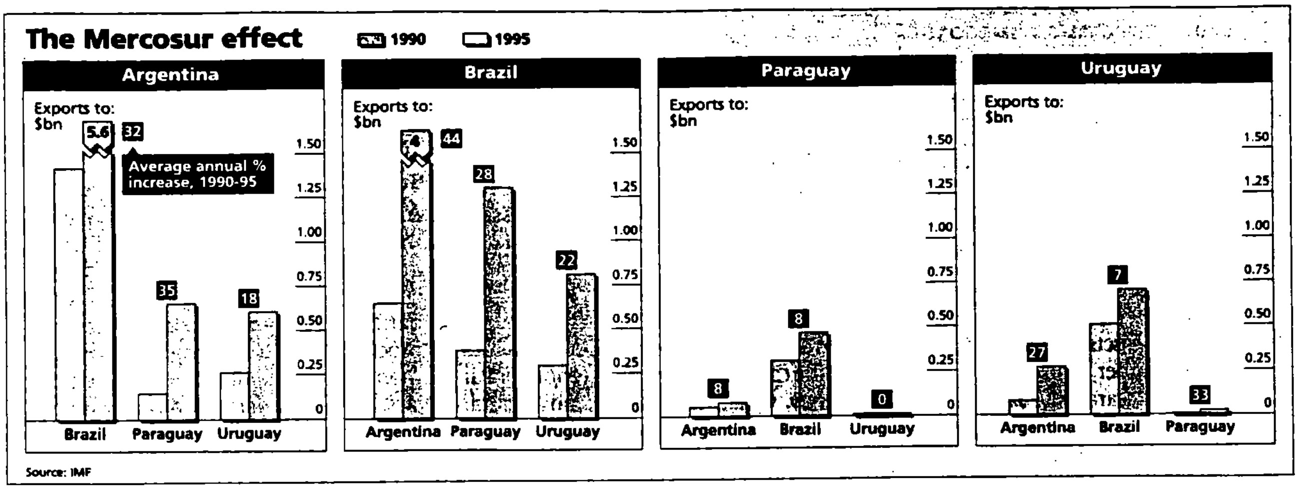
The process then underwent a vital change: the election of Carlos Menem in Argentina in 1989, and of Fernando Collor in Brazil in 1990, brought to power governments intent on trade opening and economic reform. They scrapped import bans and quotas. In place of notions of managed trade and industrial policy, when Mercosur was born in 1991, under the Treaty of Asuncion (capital of Paraguay), it was as an instrument to achieve free trade among members and to seek the efficiencies needed for competition in the world economy. The earlier agreements had involved negotiating exceptions to general tariff protection. The Mercosur treaty turned this process inside-out, requiring automatic and progressive tariff cuts, and allowing protection only that was both selective and temporary.

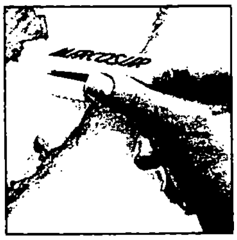


The decision in 1994 to proceed to a customs union involved a second debate as to how open Mercosur should be. Argentina, like Uruguay and Paraguay, had low tariffs on capital goods; one of its aims in opening its economy was to allow its firms cheap access to imported technology. Brazil, in contrast, wanted to protect its own capital-goods industry. In the event, the agreed common external tariff (CET) was a compromise: Argentina and the others agreed to raise tariffs, Brazil to bring them down. Today, Mercosur's average trade-weighted external tariff is 14%—well below that of any of its members (except Paraguay) in 1990, and broadly comparable to current Latin American norms.

A customs union should help to deepen Mercosur's internal free-trade area: it obviates the need to determine the national origin of goods traded between members. But, as free-traders object, Mercosur's external tariffs vary widely from low to high, so distorting relative prices. Chile—Latin America's fastest-growing economy, and one that liberalised trade earlier and more thoroughly than did others—offers a contrast. Though Chile's external tariff of 11% is only slightly lower than Mercosur's, it is applied uniformly to almost all imports (bar the rising number that come in tariff-free, under bilateral trade deals). This has prevented Chile from becoming a full Mercosur member. Still, the free-trade agreement that Mercosur reached





with Chile last June, though highly complex, underlines its relative openness. Mercosur is close to a similar deal with Bolivia, and talks are due with the Andean Group as such this month, to start setting a framework for individual deals with its other members (Colombia, Ecuador, Peru and Venezuela).

### Trade, politics and diplomacy

Some of the rise in trade within Mercosur represents a diversion of trade from outside sources: for instance, the sale of cars between Brazil and Argentina; or, more deliberately, Brazil's decision to buy oil from Argentina rather than Iraq. But the rise in intra-group trade has gone hand-in-hand with an accelerating rise in Mercosur's trade with the rest of the world. Economists agree that, overall, Mercosur has been more trade-creating than trade-diverting, the test of whether regionalism is open or closed. It has had other benefits too: without the growth in its exports to Brazil, Argentina would have suffered even worse than it did from the knock-on impact of Mexico's 1994-95 currency collapse.

While Mercosur's exports to much of the rest of the world are dominated by primary products, trade liberalisation has helped to create local markets for manufactures. These (especially cars and car parts, chemicals and machinery) make up a sizeable part of intra-group trade: almost half of Argentina's $5.6 billion of exports to Brazil last year, and almost 85% of the $4 billion of goods that Brazil sent in return. Much of this is intra-industry trade, as similar firms, or branches of the same firm, swap products or components, taking advantage of the specialisation made possible by a bigger market.

This process is helped along by the hefty foreign investment that Mercosur countries are attracting, some from each other, but more from outside. Outside direct investment within Mercosur has risen sharply. It totalled around $6 billion in both 1994 and 1995, and is likely to go higher this year, as multinationals, especially in the car, chemical and food industries, upgrade existing plants, build new ones or enter a region that they used to ignore.

Mercosur has also brought political gains. Democracy and military detente were a precondition of success in the project, but have also benefited from it. Brazil and Argentina have moved from renouncing their incipient nuclear-weapons programmes to conducting joint military exercises. Brazil's elderly aircraft-carrier (which lacks planes) has exercised with the airmen of Argentina's navy (whose aircraft-carrier has been mothballed for several years). For the first time, small units from the two armies are due shortly to conduct a joint training exercise in peacekeeping.

But for Mercosur, Paraguay would this year almost certainly have gone back to military rule, setting a dangerous precedent for Latin America. When in April a rebellious general moved against President Juan Carlos Wasmosy, Mercosur foreign ministers descended on Asuncion and demonstrated to the upstart that he would face diplomatic and economic isolation. Mercosur's presidents promptly agreed that, as in the EU, democracy should be a formal condition of membership. Revealingly, elements of Chile's right-wing opposition, close to General Pinochet and the armed forces, cited this as a reason to oppose their country's deal with Mercosur.

Another indicator of Mercosur's effectiveness is its diplomatic pulling power in the wider world. Last December, it signed a framework agreement with the EU, its largest single source of external trade and investment. The deal is not all that some enthusiasts in Mercosur hoped for, but it sets a tentative target of free trade by 2005. It now looks increasingly likely that the planned western-hemisphere free-trade area will involve an agreement between NAFTA and Mercosur. And the Japanese, during a visit to the region by their prime minister, Ryutaro Hashimoto, in August, expressed interest in starting a dialogue with Mercosur.

In sum, Mercosur has got off to a surprisingly good start. Yet this survey will argue that if it is to continue to prosper, it faces tougher challenges than those it has surmounted so far. The first is the maintenance of macroeconomic stability, open trading regimes and economic growth in Brazil and in Argentina; for while Mercosur can contribute to all of these, it cannot flourish without them. The second is to make an integrated market a reality by improving transport links and customs procedures, standardising or demolishing a mountain of rules and regulations, and striking the right balance between the nation state and common-market institutions. All of these issues are likely to test its members' commitment to their common project. ■

# A lopsided union

*Brazil is Mercosur's dominant power, yet much of Brazil doesn't much care*

NOBODY (except in France, maybe) can doubt that Germany is the European Union's paramount member. Yet its primacy is relative. Brazil, by contrast, towers over Mercosur, rather as the United States dominates NAFTA. That could be a problem. Post-1945 Germany had strong political reasons to embrace European integration. And though not all its citizens agreed, the United States had strong geopolitical motives, as well as business ones, for drawing Mexico under its wing: it wanted more influence over a large and potentially unstable neighbour. In contrast, Brazil and Argentina have never fought a war, nor does either see the other as a source of instability. That may make integration between them easier, but, at first sight, it also makes the need for it less compelling.

Ask a reasonably well-informed inhabitant of São Paulo what Mercosur means for Brazil, and he is likely to reply "not much". Ask the same question of a north-easterner, and he will answer that Mercosur is simply irrelevant. Its name doesn't help: Brazilians tend to assume that it concerns only the south of their country. Repeat the question in Buenos Aires, and you have more chance of an enthusiastic answer. Paraguay and Uruguay, as is often the fate of small countries, had little choice: once Brazil and Argentina, their main trading partners, got together, they could not afford to be excluded.

One reason for Brazil's relative aloofness from Mercosur is that it is a genuinely global trader. Despite its recent growth, Brazil's trade with its three Mercosur partners made up only 15% of its total trade in the first half of this year. The equivalent figure for Argentina was 28%; indeed, the Brazilian state of São Paulo has now displaced the United States as the largest single outlet for Argentina's exports. The markets for Brazil's exports are more widely spread: last year 27% went to the EU, 21% to NAFTA, around 18% to Asia. So Brazil's paramount commercial interest lies in the maintenance of an open, multilateral world trading system.

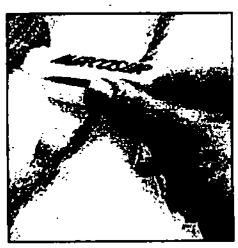
Not that Brazil is a gung-ho exporter. Though some of its companies have long been successful that way, its total trade, albeit twice what it was in 1990, still is equivalent to only around one-seventh of GDP; in Chile, the comparable figure is over 45%. This is the natural arithmetic of any big country; but that does not alter the truth that Brazil is still, in consequence, fairly inward-looking. Facing a large and usually growing home market, and obstacles to selling abroad, its firms have tended to grow sideways, becoming conglomerates, rather than to push up their core business through exports. For an Argentine firm, Mercosur more than triples its domestic market; for a Brazilian one, the expansion is not even half. Marcelo Telles, of Brahma, a Brazilian brewer, remarks that the growth in his country's beer market in 1995 (an exceptional year, it's true) was equal to Argentina's entire consumption.

Still, Brazil is Mercosur's giant, and has had a big say in shaping it. It is Brazil that most wants a wider, rather than a deeper, Mercosur, and so has pushed for other countries to be associated with it. In contrast, this worries Uruguay, whose small industries make goods much like those of, for example, Chile. Yet in the new can-do spirit now abroad in South America, the response of Uruguay's president, Julio Maria Sanguinetti, to a development that he was unable to stop was to lead a group of businessmen on a sales trip to Chile in August.

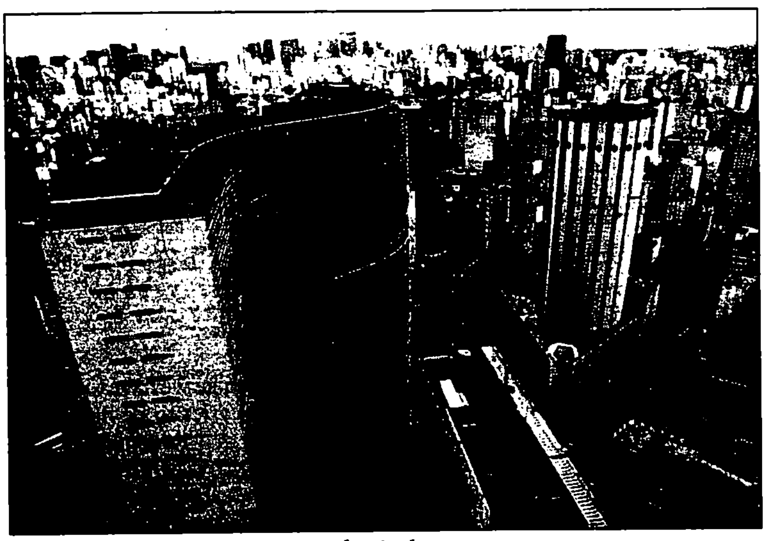
### A triumph of minimalism

On the other hand, Brazil is naturally reluctant to cede sovereignty to smaller countries. Argentina has often cited the EU as a model; Brazil insists that Mercosur should be a union of nation states, with a minimum of supranational institutions, and decisions taken by consensus. It has a tiny permanent secretariat in Montevideo, Uruguay's capital, but decision-making rests with an inter-governmental Common Market Council, made up of the member countries' foreign and finance ministers—and in practice more often with the national presidents, at their twice-yearly meetings. Beneath the council, the groundwork is done by a group of civil servants from half-a-dozen ministries, and the central banks, in each country. But these individuals are not permanently seconded to the group. There is no Mercosureaucracy, no southern-hemisphere Brussels, no parliament (and, because the group speaks only two, fairly similar, languages, no army of interpreters or Babel of translated documents).

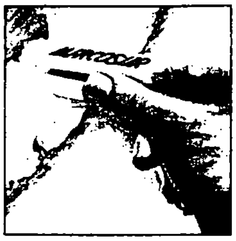
That is less natural than it looks. Jose Botafogo, in charge of international economic relations at Brazil's foreign ministry, points out that this pragmatism is "absolutely new" for countries with 500 years of legalistic, Iberian cultural baggage. One reason why earlier efforts at Latin American integration failed was that they began by erecting complex structures of baroque extravagance, unrelated to the real needs of those who actually do the trade.



But minimalism carries an opposite cost. Even Mercosur's smallest disputes have tended to go up for settlement by national presidents. That risks generating political heat. And big brother Brazil has



**This is São Paulo. Mercosur, what's that?**



felt free to act unilaterally when it chose. When last year it suddenly raised tariffs on some car imports, and when this year it required textile imports to be paid for within 30 days rather than 180, it at first failed to exempt its partners. Barely had Mercosur agreed on its deal with Chile than Brazil, in July, temporarily put up tariffs on toys from 20% to 70%, to the loud dismay of Chilean toy-makers. Such things may happen because one Brazilian ministry acts without consulting others; only the foreign ministry and, to some extent, the finance ministry are indoctrinated in the need to take Mercosur into account on a wide range of issues.

Yet Brazil has also shown flexibility. It did not insist on a weighted voting system inside Mercosur. It agreed to compromise on a lower common external tariff than it originally wanted. It has acquiesced as its former trade surplus with its Mercosur partners has become a deficit (thanks largely to the 1995-96 recession, and its aftermath, in Argentina). And it has generally been careful to keep in step with Argentina on Mercosur issues, just as Germany's understanding with France has been the backbone of the European Union.

**A passport to the world**

Brazil is flexible because it has powerful long-term motives for wanting Mercosur to work. Gabriel Porcile, an economic historian at the Federal University of Parana, in southern Brazil, argues that for the past half-century Brazil and Argentina have shown bursts of interest in integration whenever they have felt excluded from changes in world trade patterns. Five years ago, the prospect of NAFTA, the Maastricht treaty cementing European union, the rise of South-East Asia and of China in world trade, and the difficulties in concluding the Uruguay round of global trade talks all combined to produce such a sense of exclusion.

This was sharpened by Brazil's declining weight in world trade: its share of total world exports fell from 1.9% in 1984 to 0.9% a decade later. Half a century of import-substitution had left many Brazilian companies ill-equipped to compete elsewhere. Brazil's total exports to the EU may be bigger than those going to Mercosur, but much of the European figure is accounted for by raw materials. It is Brazil's neighbours who represent the fastest-growing export market for its manufactures. Brazil's leaders see Mercosur as offering both a test-bed and greater room to manoeuvre, in preparing Brazilian business for worldwide competition, as well as adding to the country's diplomatic weight. "With regional integration, we're going to be able to take part more actively in world trade and world decision-making in the next century," says President Fernando Henrique Cardoso.

Yet Brazil has also found rapid trade opening more painful and harder to digest than have its neighbours, and the government faces intermittent domestic pressure for selective protection. Brazil is now pushing for a common Mercosur regime of safeguards against dumping. Such instruments are allowed by the World Trade Organisation; indeed, Mercosur exports have been victims of their, sometimes arbitrary, application by the United States. But all anti-dumping measures risk becoming a back-door route to renewed protectionism. Brazil's wavering may be temporary, a consequence of the political difficulties Mr Cardoso faces in pushing through certain economic and other reforms—and of the costs that the lack of such reforms places on business. But it shows that support for open trade policies is less than wholehearted.

Like the EU, Mercosur is largely the creation of determined political leaders and far-sighted diplomacy. But it does not provoke much opposition in society at large, except to some extent in Paraguay and Uruguay. That is partly because in Brazil and Argentina the pain of adjusting to Mercosur has been less than that of their own unilateral trade opening. But as Monica Hirst, a Brazilian political scientist based in Buenos Aires, points out, it is also because Mercosur attracts support from the centre-right and centre-left alike, and across generations. For older people and for centre-leftists, it is politically attractive, as the fulfilment of long-held dreams of Latin American integration. A younger generation of technocrats, and people on the centre-right, see its economic charms, based as it is on open trade and free markets. This is a happy combination. But broad though public support is for Mercosur, it remains shallow. Mercosur has a joint parliamentary committee, but political parties in the member countries have few cross-border links. As Mercosur starts to produce losers as well as winners, opinion may become more polarised.

Slowly, Mercosur is starting to promote growing interdependence. In southern Brazil, universities, chambers of commerce and agricultural co-operatives are all forging close links with their counterparts in north-eastern Argentina. Even in Brazil's north-east, Chilean fruit farmers have been invited to bring their know-how in quality control and marketing, and textile factories are sending T-shirts to Argentina. Petrochemicals plants in the north-eastern state of Bahia are busily swapping products with distant partners. Not surprisingly, in the new market-based model of integration, it is business that is starting to turn Mercosur into a reality. ■

# Business gears up

*Multinationals are leading the way in the wider market, but local firms are joining them*

"BRAZIL is a country where we have to be, and Mercosur makes it easier to be here," says Raymond Jahiel, the president of Renault's local operation. The motor industry, in fact, has led the way toward making Mercosur a real single market.

Renault in August began work on a $1 billion plant near Curitiba, in the south-Brazilian state of Parana, that will make its Mégane range. The site was partly determined by Mercosur: Curitiba is close to the big markets of São Paulo and Rio de Janeiro, and not too far from the Argentine border. That makes it easier to swap parts, cars and managers across the border with a factory in Cordoba run by Ciadea, an Argentine firm in which Renault has

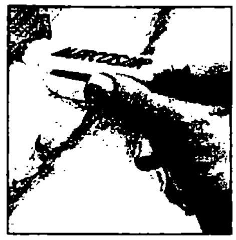
**And soon there'll be millions more**

a 33% stake. Ciadea has spent $380m since 1992 to modernise this plant, and in May began building Renault's small Clio car, using gearboxes from a third plant, in Chile. A fifth of Ciadea's cars were exported to Brazil last year, and that share will rise. Though Brazil is expected to absorb all the Méganes from Curitiba, Mr Jahiel says that the Mercosur market provides an insurance policy, enabling Renault to sell abroad even if local demand dips.

The modernisation and expansion of the motor industry has been Mercosur's most visible business achievement. But it has not been due only to free trade. Industrial policy too has played a part. Unsurprisingly: governments the world over tend to regard an industry so big as too important to be left wholly to market forces.

The industry was the first to sign a sectoral accord under the Sarney-Alfonsin agreements. This allowed makers to swap a small quota of cars between Argentina and Brazil. Cars were equally the issue that brought Mercosur near to breaking last year, when Brazil, worried by a rising trade deficit, suddenly put up tariffs to 70% on cars imported—from anywhere—by firms without manufacturing plants in Brazil; firms with such plants were allowed to continue importing at 35%.

The resultant row ended in compromise. Brazil exempted Mercosur-made (ie, very largely, Argentine) cars from the tariff rise. But until 2000 firms with plants in both countries must balance their overall trade, of cars and components, between the two; the goods go duty-free, provided they have 60% Mercosur content. Firms with plants only in Argentina have a quota for exports to Brazil at a 35% tariff. The deal also brought cars within the common external tariff: tariffs on cars from outside Mercosur are to fall progressively to 20% by 2000. By then, intra-Mercosur trade in cars will be duty-free.



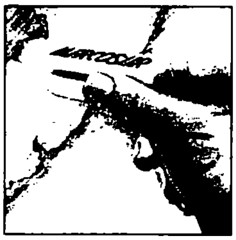
The main effect of this compromise was to prevent the car makers concentrating their production in Brazil, by far the bigger market (with yearly sales above 1.6m, as against Argentina's 500,000 in 1994 and 350,000 in 1995). Not that a wider row is over: Japanese firms were upset, since they are yet to start producing in Brazil, and, though they have won some Brazilian concessions, are still talking of pushing a formal complaint at the WTO. But provided that the tariff on finished cars from outside the region starts to fall on schedule next year, the medium-term damage will have been slight.

For meanwhile, enticed by an enlarged and growing market, but knowing that its tariff walls are —in time—to be lowered, all the makers are pouring money into modernising their Mercosur factories; and, for the first time, are building their latest models there, to the same production standards as in Europe. New entrants too are arriving: beside Renault, plans for new plants have been announced by Honda, Toyota, Chrysler, Hyundai and Kia. If all goes well, by 2000 Brazil could be building 2.5m reasonably modern cars a year.

Most of the car makers are concentrating the production of each model for the whole of Mercosur at a single plant in either Brazil or Argentina. Ford has spent $1.1 billion since 1995 to install a production line for its small Fiesta car at its plant in São Bernardo, in the industrial belt surrounding São Paulo. It has switched production of the Escort to its Argentine plant, though 75% of these cars are exported to Brazil. In all, Ford plans to have invested $2.5 billion in Brazil and $1.1 billion in Argentina between 1995 and 1999. Fiat chose its Brazilian plant, in Minas Gerais state, as the launch site for its Palio model, aimed at developing countries worldwide. But it is also to build an estate-car version at a new $600m plant in Argentina.

Volkswagen will soon start building its Polo small car in Argentina, while, like Ford, it is concentrating production of lorries and pick-ups in Brazil. Last year VW opened a new truck and bus plant in Resende, in the state of Rio de Janeiro; Jose Ignacio Lopez, the board member in charge of the firm's Mercosur operations, claims it is the most advanced in the world. It uses a system whereby component suppliers set up shop inside the factory and are partners in the assembly process. Mr Lopez claims the plant has cut costs by 50% and achieved a big increase in quality. VW is also planning a new Mercosur plant—location yet to be fixed—for its Golf model and its Audi range. This year the firm will export vehicles and parts worth $320m from Brazil to Argentina, and import 43,000 finished cars in the other direction.

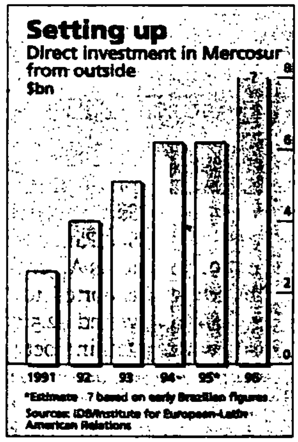
Component makers too are reorganising to operate in the wider Mercosur market. They have little choice: under Mercosur rules, the local content requirement has dropped from 100% to 60%, while in Brazil car makers can import parts from outside Mercosur at a tariff of only 2%. The result has been a big shake-out: in Brazil, the industry has shrunk from 1,300 firms in 1990 to 900 now; by 2000, says Paulo Butori, of Sindipeças, the parts-makers' association, there will be just 250. Those who want to survive are linking with big foreign firms, or buying Argentine rivals, or both. For example, Bradesco,



Brazil's largest private-sector bank, which has big stakes in industry, in association with German partners has quietly built up a commanding position in the supply of engine blocks, piston rings and exhaust systems, in a complex series of transactions that has seen half a dozen component makers in Brazil and Argentina change hands in the past year. In the other direction, IMSA, an Argentine firm, has bought from Ford a big plant making wiring harnesses near Recife, in north-eastern Brazil.

### The birth of regional brands

The removal of most intra-Mercosur tariffs is reshaping business in consumer products. The market is not uniform, but increasingly that is because consumer tastes and distribution systems differ, not because of barriers to trade. Argentines for example, eat lots of beef and butter, and patronise small shops; Brazilians eat more chicken and margarine, bought at the supermarket, says Mario Ernesto Humberg, a São Paulo marketing consultant. Most firms use local advertising agencies in each market. But they are taking advantage of Mercosur to organise production more efficiently, to break into new markets, or to build regional brands.




**Setting up**
Direct investment in Mercosur from outside
$bn
*Estimate †Based on early Brazilian figures
Sources: IDB/Institute for European-Latin American Relations

Multinationals such as the United States' Nabisco and Philip Morris, and France's Danone, have bought into the market, snapping up local food firms. McCain, a Canadian firm, has opened a $26m plant near Buenos Aires, to supply frozen sliced potatoes to McDonald's restaurants in Brazil, instead of bringing them in from Canada. Multinationals long established in the region are reorganising. Nestlé, with 40 factories and annual sales of $3.6 billion in Mercosur and Chile, is directing its investment of $380m a year in plant modernisation and construction wherever the raw materials are most efficiently available: coffee and chocolate in Brazil, potato products in southern Chile, dairy products close to Argentina's well-managed and high-yielding herds.

Among local food companies, Sadia, a big Brazilian producer of chickens and pork products, is setting up a slicing and packaging plant in Buenos Aires. Bunge y Born, an Argentine multinational grain trader, has unloaded paint firms in Argentina and Brazil (to Britain's ICI), in order to focus on its core food business. Mercosur has allowed the company to co-ordinate across frontiers, says its president, Salvador Carbo: a Brazilian arm, Santista Alimentos, for instance, now distributes sunflower oil, flour, pastas and sauces produced by a subsidiary in Argentina. On a smaller scale, Santa Carolina, a medium-sized Chilean food and drink firm, is trying to regionalise its Watts fruit-juice label, with sales of $130m in Chile, Peru, Paraguay and southern Brazil. Today, it imports concentrated orange juice and Tetra Pak packaging from Brazil, adds "Chilean water and management know-how", says its finance manager, and re-exports the result to Brazil. But it will shortly open a plant in Paraguay to do the job for both the Brazilian and Argentine markets.

Mercosur's brewers too are busy invading each others' markets. In 1994, Brazil's Brahma opened a brewery outside Buenos Aires, and now claims 9% of the Argentine market. Quilmes, an Argentine firm that is the biggest brewer in Paraguay and Uruguay as well as at home, opened a brewery in Chile in 1991, and this year bought two Bolivian breweries. Now it is starting to export to Brazil, in "a very cautious effort to understand the dynamics of the market", says William Engels, one of the firm's managers. Meanwhile, CCU, Chile's biggest brewer, has snapped up breweries in Argentina.

Regional integration is helping the shoe industry, a business that has been battered by competition from Asia (and which as a result is temporarily exempted from Mercosur's common external tariff). Alpargatas, an old-established Buenos Aires shoe and textile firm, has been through a painful restructuring. Its 7,500-strong workforce is only half the size it was a decade ago, its factories are operating more efficiently, making at most 15 different models of shoe at one time, instead of 40—and its exports are going so well that it is thinking of setting up a factory in northern Brazil. Had Mercosur existed earlier, Alpargatas would have one already: it had to sell a Brazilian subsidiary in 1982, since, as a foreign firm, it had trouble at that time in getting bank credit. Meanwhile, Brazilian shoe firms in Parana and the far-southern state of Rio Grande do Sul are recovering from their Asian battering, partly because they now have tariff-free access to Argentine hides, cheaper and of higher quality than those from Brazil.

### Just the start

There is still far to go, though: such stories are so far the exception, not the rule. In all, according to Michel Alaby, a Brazilian lobbyist for Mercosur, 450 Brazilian firms have investments or joint ventures in Argentina, worth a total of $1.2 billion; and around 100 Argentine firms have invested perhaps $200m in Brazil. These are fairly modest figures.

They should be a prelude to greater things. They are puny compared with the $11 billion that Chile's President Eduardo Frei says his country's firms have invested (directly or—as he does not say—through offshore holding companies, to get round Chilean rules) in the southern cone since 1990, mostly in Argentina and Peru. Why the difference? Chilean firms are generally well-managed and have sound balance sheets, but so do many Brazilian and (nowadays) Argentine ones. True, it is natural for Chilean firms, as they grow, to look beyond their small domestic market. But the big difference is that a decade of sustained growth and fiscal rectitude, and a high domestic savings rate, mean that Chilean firms have access to cheap and abundant investment capital, and the luxury of being able to think long-term. In contrast, both Brazil and Argentina are still struggling to balance their fiscal accounts. And in neither country is long-term macroeconomic stability yet guaranteed.

# Getting the government books in order

*Both Brazil and Argentina have fought off inflation, but have yet to achieve fiscal balance*

MERCOSUR'S better-than-expected start owed much to economic reform in both Argentina and Brazil. The end of hyperinflation, first in Argentina in 1991, and then in Brazil in 1994, triggered consumer booms, while privatisation has attracted foreign investment. Argentina's economy grew at an annual average rate of over 7% between 1991 and 1994. In 1993, after three years of recession, Brazil began to revive, as the government speeded up the liberalisation of imports. The recovery accelerated from mid-1994, with the launch of an anti-inflation plan, and a new currency, the *real*, devised by Mr Cardoso, finance minister until he resigned in April of that year to move forward to a presidential candidacy. In both 1994 and 1995, economic growth exceeded 4%, reaching a quarterly peak in the first quarter of 1995, at 10.4% over the same quarter a year earlier. In both countries, the lowering of tariffs was an important instrument in achieving price stability, by forcing local producers to compete with cheaper imports. And so Mercosur began to work, as first Brazilian firms and then Argentine ones found booming markets next door.

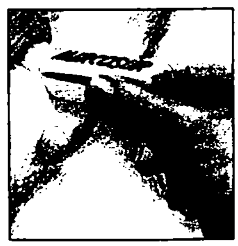
Then came the "tequila effect". The bungled devaluation of Mexico's currency in December 1994, and its subsequent collapse, caused global moneymen to retreat in panic from much of Latin America. Argentina was hit hardest. Under the "convertibility" plan launched by its economy minister, Domingo Cavallo, in 1991, its peso is fixed by law at par with the dollar, and the supply of coin and notes is tightly linked to the level of foreign reserves. So, as reserves shrank, the money supply shrank too. Mr Cavallo stuck to his guns, refusing to abandon convertibility, but the cost was high: the economy slid by 4.4% last year, and is recovering only slowly. Brazil did not escape, though there a sharp rise in interest rates was intended mainly to cool its overheated economy. In both countries, the monetary squeeze exacerbated frailties in the banking system, concealed in the past by high inflation.

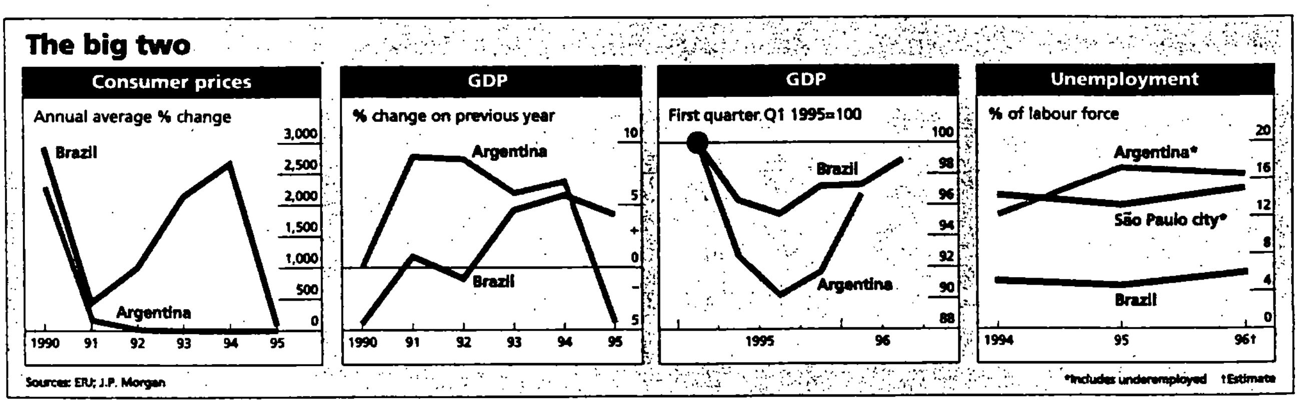
Both economies have been in low gear this year: Brazil may achieve modest growth of 2.5-3%, Argentina probably even less. This is not enough: 16-17% unemployment in Argentina and widespread poverty in Brazil call for sustained growth nearer 5-6% a year. Reform and trade opening will help. But in both countries the economy is held back by a structural, and politically rooted, constraint: the need to balance the public sector's accounts, and to create a more efficient state. Until state reform is accomplished, investors will continue to have doubts about the permanence of macroeconomic stability—and about the ability of either country to withstand further external shocks; for instance, a sharp rise in global interest rates.

Take Argentina first. At around 2.5% of GDP, its fiscal deficit is smaller than Brazil's, and that of many West European countries. But its "convertibility" restraints deny it an exchange-rate policy, and most of a monetary one too. Fiscal policy is the only economic tool left. And a deficit, albeit small, has a disproportionate effect in increasing the cost of credit for the private sector. Mr Cavallo first tried to deal with this by lowering taxes, hoping in time to raise revenues through economic growth. In July he changed tack and announced cuts in welfare spending. The angry reaction, especially from the unions linked to President Menem's Peronist party, persuaded the president to sack his star minister.

Roque Fernandez, the new economy minister, had an uneasy start. In a package hurriedly announced days after a general strike, he proposed a bundle of tax rises, meant to pull in at least $4 billion next year (this year's deficit is heading for $6.6 billion). He also proposed to tackle two longer-term problems: to set a ceiling on the share of tax revenues that goes to provincial governments, and to lessen the deficit in the state pension system, by raising the retirement age for women to 65. Yet critics complained that this did nothing to cut central-government spending, nor did it leave a margin to boost exports by further reductions in payroll taxes and so in wage costs. The package was later greatly diluted by Peronist legislators, though Mr Menem went on to float other plans, for privatising trade-union health schemes and loosening labour laws.

This fiscal fight has turned into the toughest political battle Mr Menem has faced in seven years as president. If he wins it (so appeasing the IMF and thus the financial markets), Argentina's prospects should brighten, at least in the medium term. By 1998, a new system of private pensions should have accumulated $15 billion in funds available for long-term investment. Thanks largely to exports, notably to Brazil, manufacturing output has been growing





healthily in recent months. With a record harvest also on its way, Alieto Guadagni, the industry minister, reckons that Argentina is on the verge of a new agro-industrial golden age. But if Mr Menem loses—and he is hampered by widespread public anger at government corruption—Argentina's economic and political stability may be among the casualties.

Brazil's government has more policy options, but in a more complex political environment. His new *real* apart, Mr Cardoso's 1994 plan tamed inflation by relying first on keeping the *real* high, to cheapen imports, and then on high interest rates and tight money to restrain consumption. That, says Gustavo Franco, a central bank director, was the only way to speedy price stability, given that reaching fiscal balance takes longer. Now the *real* is being lowered gently against the dollar (though not at a pace that matches inflation), and monetary policy has been cautiously relaxed, though the resulting rise in consumer debt means that any sharp rise in interest rates, to meet some shock, could bring some banks nasty problems. Still, these are instruments that Argentina lacks; and, together with foreign-exchange reserves of some $60 billion, they give Brazil more time to carry out its fiscal adjustment. But adjust it must, if it is both to keep inflation down and achieve sustainedly higher growth.

**Cavallo: triumphs past**

When critics point this out, the economic team responds, with justifiable irritation, that they are preaching to the converted. The problem the team faces is that much fiscal spending is mandated by the constitution, which can be changed only by a 60% vote in each house of Congress. In principle, President Cardoso has the votes; in practice, he often does not.

Critics argue that he was elected on a mandate to stabilise the economy, and then tarried too long in exercising it. Last year he pushed through constitutional amendments ending state monopolies and allowing foreign investment in telecommunications, oil and mining. But Congress is yet to approve constitutional changes allowing reforms of taxation, the civil service and pensions, which

**Malan: tests to come**

are essential for long-term fi health. The government has persuaded Congress to scrap a that facilitated small minori wrecking amendments to c stitutional bills. It is preparing a fresh attempt at reform after month's municipal elections.

Meanwhile, the governmen trimming spending and mak such piecemeal changes as it c for instance, a recent law to exen exports, capital goods and ene from local sales taxes. Overall, s Pedro Malan, the finance minis it reckons its measures will cut t year's fiscal deficit to 5% of G (from 7.4% last year), and push 1997 growth to 4.5 As in Argentina, growth will be partly due to forei direct investment, attracted notably by privati tions in electricity and telecoms; Mr Malan expec at least $7 billion of that this year and as much ne

Outsiders underestimate at their peril the Br zilian capacity for creative improvisation. Yet th are right to point to a worrying rise in the gover ment's internal debt, and the lack of control o spending by state governments. And the politic climate for continued reform may yet deteriorat Thanks to a sophisticated system of indexation, Bra zilians were less traumatised by inflation than wer Argentines. Brazil's elite is correspondingly les convinced than Argentina's of the need for fisca rectitude. And the constitutional reform that M Cardoso currently appears most excited by is one that would allow him to stand for re-election in 1998—for whose approval Congress might well seek to exact a fiscal price.

Nevertheless both Mr Cardoso and Mr Menem (twice) owe their posts to economic stability. Neither man will jettison it lightly. That augurs well for Mercosur, since nothing would damage it more than a round of competitive devaluations. But increasingly Mercosur, and the trade opening that lies behind it, will demand agile governments that are able to ease the process of adjustment, and to afford (or get private finance to help them afford) the investments in infrastructure required to extract full advantage from an expanded market.

# The race to bridge borders

*If trade is to continue to grow, infrastructure must keep pace*

TALK to a public official in southern Brazil, Argentina or Chile about Mercosur, and sooner rather than later he will probably refer you to a map. Indeed, Jaime Lerner, an architect who is governor of the Brazilian state of Parana, himself drew a detailed one in his Curitiba office for your reporter. Mercosur has awoken century-old dreams of linking the southern cone from the Atlantic to the Pacific in many ways and at many points. Not surprisingly, each Brazilian state, each Argentine province and each Chilean region, not to speak of Paraguay and Bolivia, wants its own cross-border route. But the distances and costs involved are immense, and nature has placed formidable obstacles in the way; not least, the Andes. It will take quite a while before there is a prospect of sufficient traffic to justify some of the costlier schemes.

Yet improvements in Mercosur's transport and its energy links are vital. History, and military mistrust, caused Latin American countries to turn their backs on each other. Rather than joining up, each one's transport system grew on its own, linking the national production and consumption centres to national ports. Railways were built with different gauges, so that no Brazilian train has ever entered Argentine territory, nor vice versa; cargoes such as Brahma's beer, which goes by rail, have to be unloaded and reloaded, at a cost in time and money.

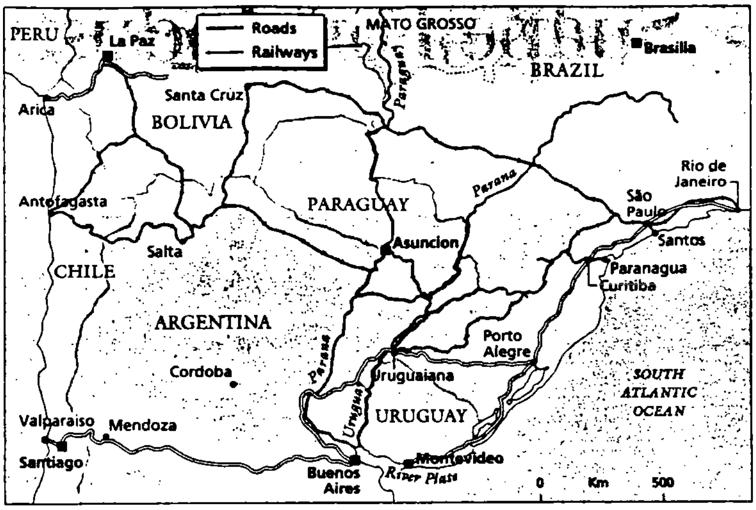
Progress is fastest in energy integration. The earlier building of giant bi-national dams on the rivers Parana and Uruguay means that only a small investment is needed to link Mercosur's electricity systems (though their different frequencies do not help). Privatisations in Argentina and Peru have enabled Chile's ambitious electricity firms to win large slices of power generation in those countries; they are likely buyers when Brazil follows suit. Bruno Philippi, chairman of Chilgener, one such firm, reckons that in ten years' time there could be an interconnected grid for the seven southern-cone countries (the Mercosur four, plus Chile, Bolivia and Peru), with a single multinational regulator ensuring efficient use of capacity—something that Western Europe is only now getting towards. A network of transcontinental gas pipelines is well under way: Chilgener is a partner in a consortium that is building one from Argentina's natural-gas fields to Santiago. Another consortium is starting work on a pipeline to bring Bolivian gas to São Paulo.

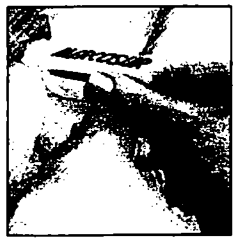
**Ports, roads and railways**

Transport links are less advanced. Many airports are saturated, and many ports, at least in Brazil, require radical reform and expansion; Brazilian businessmen condemn São Paulo's port of Santos as the least efficient and most expensive big port in the hemisphere. Road and railway networks are groaning under the sharp increase in trade. Three-quarters of all terrestrial trade between Brazil on the one hand, and Argentina and Chile on the other, travels across a single bridge over the river Uruguay. On an average day, between 300 and 700 trucks cross the bridge, but only after a delay, often, of at least 24 hours at the customs post there; and once through, they face long journeys on often poorly maintained single-carriageway roads before they approach the main cities. There are two other bridges on the 1,000-kilometre (620-mile) Brazil-Argentina border. One carries little traffic; the other, completed a year ago, is still not in use because of a dispute involving customs workers.

Things are not much better on the main route between Chile and Argentina. The number of lorries travelling between the two countries has more than trebled in the past ten years, but 90% of them (or 300 a day) use a road between Santiago and Mendoza that climbs above 3,100 metres (10,000 feet) and in winter is often blocked by snow. Trains stopped running in 1984 on the trans-Andean railway between these two cities.

There have been some improvements, though, both in border procedures and in roads: in the 1980s, according to an ECLAC study, a lorry took up to two weeks to go from Santiago to São Paulo; now



it can get there and back in less than 11 days. This owes much to the development of larger transport firms, using more efficient operating methods. The car makers have been the pioneers in cutting through red tape: Volkswagen has a road shuttle of 150 trucks a day moving components between its plants in São Paulo and Buenos Aires, a journey that used to take a week and now takes three days.

Enrique Iglesias, president of the Inter-American Development Bank (IDB), reckons that, if their economies grow at an annual average of 5%, the seven southern-cone countries need to invest $20 billion a year in infrastructure to keep pace. Some big projects are under way. The IDB and the World Bank are financing the upgrading of the main road south from São Paulo, doubling its width, as part of a medium-term plan to build a superhighway linking Rio de Janeiro and Buenos Aires (perhaps, eventually, via an expensive bridge across the estuary of the river Plate). Land-locked Bolivia has at last completed a decent paved road to link La Paz to its nearest port, Arica, in far-northern Chile. An addendum to Chile's agreement with Mercosur commits Chile and Argentina to invest $150m each in improving cross-border links.

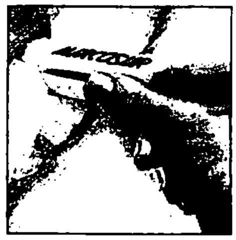
Private capital can help. A new road bridge over the river Uruguay is being built, and will be operated, by private investors. Brazil and Chile are privatising their railway systems, as Argentina and Bolivia have already done. In Parana, Mr Lerner plans to privatise a railway that runs inland from the Atlantic port of Paranagua, on condition that the new operators invest $150m to extend it towards Paraguay and Argentina. He reckons that this railway could eventually link up with others in either of those countries to provide a multi-modal link with Chile's Pacific ports.

But most of the money for transport improvements will have to come from governments. "All processes of physical integration have to be done with public money, because it's a bet on the future," says Ricardo Lagos, Chile's minister for public works. He, like Mr Lerner, is a practical and respected man with a map. Both have their eyes on Brazil's 25m-tonne soya crop, much of which is exported to Asia. Much of the soya is grown in Parana. Some 10m tonnes come from Mato Grosso. That state is about as near to Arica as to Santos—and, as

Chilean request to include trade in services in its association agreement. Here too the EU offers a warning: for all its supposed good intentions and zeal for integration, directives opening up cross-border sales of financial services had to wait till the 1990s, and in the real world there are problems still.

Harmonisation of macroeconomic policies within Mercosur so far extends no further than the exchange of information. That is useful. When he sacked Mr Cavallo, Mr Menem sent an envoy by private jet to brief Mr Cardoso before the news was made public. And at least policies are headed in broadly the same direction. But Argentina's fixed exchange rate could yet prove a problem: neither the peso nor the *real* is yet solid enough to play a role like that of the D-mark or the dollar.

As for policy co-ordination, Mercosur, like the EU, will probably find that the hardest part of living together. The only thing that rivals it is allowing free movement of labour. Although the four Mercosur countries now issue a special businessman's visa, Uruguay and Argentina will resist giving the mostly poor and unskilled citizens of Brazil's north-east the right to work, let alone settle, in their richer countries. Yet Mercosur's members cannot afford to let it turn into an instrument that makes already unequal societies more unequal. That makes its new, non-tariff agenda an urgent necessity. But this deepening process will be all the more complex because Mercosur is already growing wider.



**Miami 1994: hopes were high, then**

# And now, the hemisphere

*The road to free trade throughout the hemisphere is strewn with obstacles—and no wild enthusiasm to get round them*

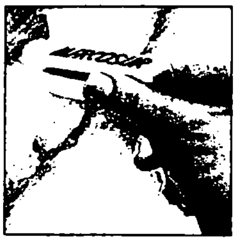
IF MERCOSUR is seen as a significant actor within Latin America and beyond, that is only partly thanks to its own achievements. It also has much to do with congressional obstruction on trade matters in Washington, and the failure of the Clinton administration, relatively uninterested in Latin America—beyond Mexico and Cuba—to overcome it.

The 1990 "Initiative of the Americas", in which President George Bush proposed a free-trade area from Alaska to Tierra del Fuego was welcomed by a new generation of Latin American leaders, bent on trade liberalisation and export-led growth. In the past, says Miguel Rodriguez, who heads the trade unit of the Organisation of American States, Latin Americans would come to Washington pleading for non-reciprocal deals; now many are prepared to grant the United States complete access to their own markets in return for a similar opening of the American one. And these days they feel let down.

Mr Clinton fought hard to get congressional approval for NAFTA. But he has been unable to deliver on its promised extension to Chile (or to Central America and the Caribbean). And his modest interest in Latin America has taken him—unlike his three immediate predecessors—no further than Miami. Still, there, in December 1994, he invited the leaders of 34 western-hemisphere countries, all except Cuba. They assembled, and agreed to negotiate, by 2005, a Free Trade Area of the Americas (FTAA), to be implemented over a further ten years.

Eight days later, Mexico devalued its peso. Mr Clinton arranged a bail-out. His voters did not like that, nor the way Mexico's trade deficit with their country soon became a surplus. Hopes of winning "fast-track" authority from Congress for talks with Chile were scuppered. That procedure allows Congress to accept or reject a deal as a whole, but not to amend it; and without fast-track—as the Chileans well knew—trade negotiations with the United States are a waste of time. Rebuffed, Chile reversed its earlier decision to stand aloof from Mercosur.

Some believe that even Argentina, had it been promised a trade deal by the United States, might at one time have abandoned Mercosur. Its doubts were high in early 1994, with Brazil's inflation above 40% a month, and Luis Inacio Lula da Silva, a

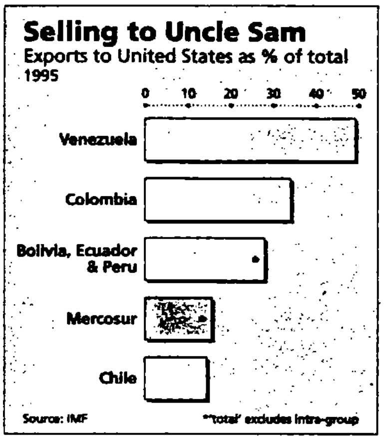


left-winger, poised to win its coming presidential election. But no offer came from Washington, Mr Cardoso launched his anti-inflation plan and won the presidency. And Mercosur bloomed.

### A wider Mercosur, and then?

So Mr Clinton has helped Mercosur to consolidate, and to exercise a growing attraction in South America. But its widening was also partly inevitable. The adoption of a common external tariff meant that members' bilateral preferences granted earlier to other Latin American countries had to be renegotiated. Carlos Mladinic, trade chief at Chile's foreign ministry until he was recently appointed agriculture minister, points out that half Chile's trade with Mercosur markets enjoyed such preferences, which would have expired but for last June's deal.

Though Brazil's diplomats talk less loudly than they used to of building a South American free-trade area, that appears still to be the goal. After Chile, Bolivia seems set to become the next Mercosur associate; then, if the framework talks go well, other Andean Group members. Mr Cardoso says he would like to invite all five Andean presidents to Mercosur's next presidential meeting in December.




This quest for a wider grouping is not just concerned with South American trade, however. It has a political motive that stretches wider, towards the United States. How exactly is a hemispheric free-trade area to be built? At Miami, the participants agreed to set up technical working groups, 11 in all, to prepare the ground. These have vigorously collated and analysed the current rules and procedures in the hemisphere's patchwork of trade agreements. But negotiation is not their job, and there is no consensus on how to make further progress.

The United States at first seemed to favour moving ahead by the selective extension of NAFTA; some countries would prefer a multilateral negotiation to create a kind of 34-country mini-WTO; others see existing groupings such as Mercosur and the Andean Group as building blocks to be fitted together with NAFTA. All is possible, but the best bet today is that the main negotiation will be between NAFTA, led by the United States, and a widened Mercosur, led by Brazil. The Brazilians, whose market is the main attraction for the United States, naturally want as many allies as possible.

When? Mr Clinton's trade officials say they want the next meeting of the hemisphere's trade ministers, due to be held in the Brazilian city of Belo Horizonte next May, to fix a date for proper FTAA negotiations to start. Brazil has appeared reluctant, but Mr Cardoso now says he too favours fixing a date. More difficult is what to negotiate.

The United States wants any deal to go beyond existing commitments under the WTO, NAFTA and other regional groups. It wants things like product standards, investment protection and customs procedures treated as "early action" items; in the main talks, it would stress such issues as intellectual property and market-opening for services. Brazil, still digesting the political and economic consequences of its trade opening, is uneasy about accepting more stringent rules than those of the WTO, especially in services. It sees the FTAA as a tool to remove barriers against its exports to the United States. For though most Latin American exports face low or no tariffs there, for some the barriers are higher. A fierce tariff protects Florida's growers from Brazilian juice; Brazil's privatised steel firms face anti-dumping duties, a legacy of their state-owned past. Many of Argentina's farm exports are subject to quotas.

In the end, two things are likely to determine the pace and form of the FTAA talks. First, will the new administration in Washington secure fast-track authority from Congress next year? Though fast-track could be of broad scope, it is likely—if it is granted at all—to be used in the first instance for talks to extend NAFTA to Chile. Peter Allgeier, at the office of the United States trade representative, says that while fast-track is not necessary to start the FTAA talks, its existence would influence those talks.

Indeed it would. It might do more. By signalling seriousness in Washington about opening trade, and a real prospect of progress, fast-track authority could dampen enthusiasm for association with Mercosur among the Andean countries. The United States' market matters far more to them than does the Brazilian one; a fact that may also make them less-than-solid allies for Mercosur when the real bargaining starts.

Sceptics, however, doubt that early, or perhaps any, fast-track authority will be forthcoming. Protectionism is alive and well on Capitol Hill, and likely to be still more so if the Democrats regain control of the lower house there. "The gap between the free-trade rhetoric of the leaders of both American parties, and their tendency to abandon it when faced with any problem, mean that the credibility of the United States in this matter is relatively low," says Alejandro Foxley, president of Chile's ruling Christian Democrats and a former finance minister. Some Chileans would put it more forcibly.

### Two-way attraction

The second factor which may change the equation is the future performance of the Mercosur economies. Peter Hakim, of Inter-American Dialogue, a Washington think-tank, argues that if Brazil were to grow at over 5% for three or four years, the United States' interest in a deal with Mercosur would soar. On the other side, Mercosur would be strengthened and Brazil itself would feel far more self-confident about sitting down to haggle with the United States. Since, along with Mercosur, the United States is the Brazilians' main market for manufactured exports, they have much to gain there from an FTAA. In turn, progress towards an FTAA could push the EU into freer trade—notably, into relaxing its barriers to Mercosur's agricultural exports—for fear that the United States would otherwise gain privileged access to the South American market. And Brazil's skilled diplomats need no telling how advantageous it is to be negotiating simultaneously with rivals who can be played off against each other.

But the Mercosur countries and their associates also have business at home to think of: the further development of their own grouping. ■

# Tune the engine, strengthen the bodywork

*Mercosur needs to build up some fresh mechanisms and institutions—but not too big and not too fast*

HAVING put in place the basic instruments of a free-trade area and a customs union, Mercosur today is at a crossroads. It could be knocked into a tortuous side road, if either of its big members hits economic trouble. But even then Mercosur would be unlikely to turn round and reverse course. The gathering interest shown by the private sector in its possibilities is starting to create a powerful lobby in its favour. And the history of past integration efforts suggests that the institutions can sustain co-operation even when conditions deteriorate.

But Mercosur's institutions are not quite complete. Minimalist pragmatism has taken it far, and fast. It has been built and driven by the collective political will of presidents, and the toil of a small (and overworked) group of diplomats, financial officials and businessmen. They can be proud of their creation—but prouder still if they can now endow it with the sort of institutional framework it needs to continue speedily and securely on its way.

Rightly, member countries are now turning their attention to Mercosur's non-tariff agenda, of sweeping away bureaucracy and adopting common standards, to create a genuinely single market to which everyone can have access on more equal terms. But progress has been painfully slow. The aim of this process should be to create fewer but clearer rules. And these rules will need to be enforced not by presidents haggling over lunch but by some kind of supranational referee, armed with technical competence and judicial objectivity rather than with the ability to make political deals.

This issue is less tricky than it seems. For the logic of events is likely to bring Mercosur to a consensual mid-point between Uruguay's dream of turning Montevideo into a Latin American Brussels, and Brazil's mistrust of any arrangement that would involve a visible loss of sovereignty. Guido Di Tella, Argentina's foreign minister, argues that though his country is not pushing this way, some common institutions will inevitably develop. Modest ones, though they will be at first, and should be. "To do now what can only be done when there's a much greater level of interdependence would be a big mistake," says Felix Peña, an Argentine academic and lobbyist for Mercosur.

That argues against, for instance, the swift creation of EU-style regional funds. These might seem desirable, but the who-gets-what arguments they would generate might well poison public attitudes to the common-market enterprise itself. Far better, at this stage, for each country to complete its own fiscal reforms, to make each government more capable of providing effective aid (in the form of education, training, technical help and infrastructure) to its own disadvantaged areas.

Less costly but even more unwise would be the creation of a supranational parliament. The Mercosur countries need to encourage more cross-frontier contacts among politicians and community leaders. But a Mercosur parliament would be wildly premature; little more, in practice, than a rest-and-recreation centre for travelling politicos.

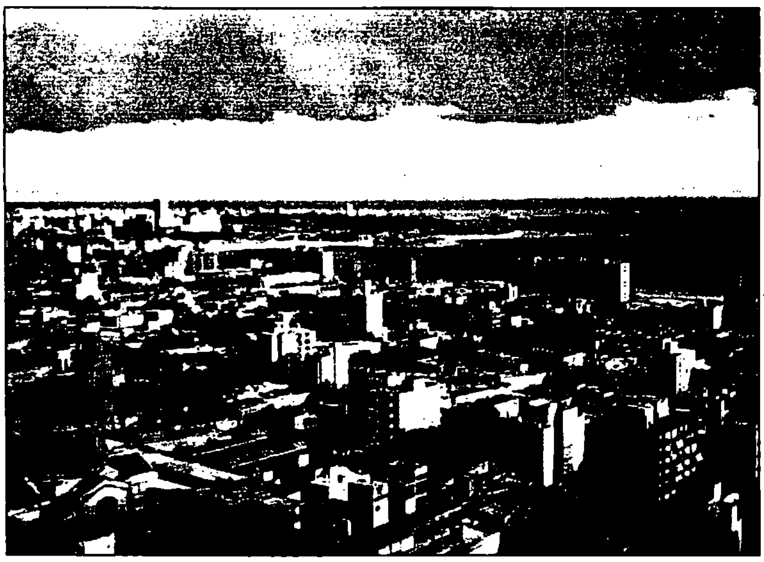
On the other hand, a supranational body to settle trade disputes is essential. Even Mr Cardoso concedes that this will eventually be necessary. Rather than a mini-Brussels, Montevideo should aim to be a southern-hemisphere Geneva, the seat of a regional trade tribunal with powers of arbitration similar to those of the WTO.

### Catching up with the world

There is another reason for not overburdening Mercosur with institutions. Mercosur is an exercise in catching up with the rest of the world, a fast-moving world. Most economists believe South America would, in principle, gain more than it would lose from a free-trade agreement with the United States. An elaborate institutional structure would make such an agreement more difficult to achieve.

But that is not an argument against consolidating Mercosur, and moving towards a wider and deeper common market. There is no reason for Mercosur to hang around while people in Washington make up their minds. If the United States does delay, it is not far-fetched to imagine that growing investment in neighbouring countries by Chilean firms will cause that country to seek full membership of Mercosur by the turn of the century. By then, today's Mercosur countries should be ready to contemplate future reductions in its external tariff to Chilean levels. And Mercosur would benefit much from the deregulated but still rule-bound business culture of its neighbour across the Andes.

That may not happen. Equally, Brazil and Argentina may falter in their quest for stable growth. Mercosur integration cannot be a substitute for that growth. But it does bring benefits in its own right, in helping the region's businesses to become more efficient and in strengthening democracy. By redrawing South America's map, in just five years Mercosur has already done much to help its members feature on the world's map for the new century. ■



**Montevideo-Geneva, not Montevideo-Brussels**

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# Why Free Trade in the Americas? Why NAFTA?

***Greater market access to the dynamic Latin American market is a major objective for U.S. trade policy and free trade through an expanded NAFTA is the market access tool which will best achieve it.***

## *Why Free Trade?*

• Despite Uruguay Round duty reductions, tariff barriers in Latin America are still on average four times higher than the average U.S. tariff. Only the negotiation of a free trade area will reduce that disparity.

• The Western Hemisphere accounted for 38 percent of U.S. exports in 1995. Not only are Canada and Mexico the first and third largest U.S. trading partners, but the rest of Latin America and the Caribbean Basin was the second fastest growing U.S. export market in 1995 (an increase of 20 percent over 1994) after the Pacific Rim.

• In just four years (1991-1995), U.S. exports to Latin America and the Caribbean Basin, including Mexico, have grown 52 percent from $63 billion to $96 billion.

• The region (excluding Mexico) was one of only two major regions with which the U.S. recorded a significant trade surplus in 1995.

• The United States exported nearly as much to Brazil last year ($11.4 billion) as to China ($11.8 billion), despite the fact that Brazil's population amounts to less than one-seventh of China's. Last year, U.S. exports to Central America exceeded those to Eastern Europe. Within the region itself, U.S. exports to all of the small Caribbean Basin countries equaled those to the MERCOSUR countries (Argentina, Brazil, Paraguay, and Uruguay).

• Latin America (including Mexico) and the Caribbean Basin have a population estimated at 465 million. The total gross domestic product (GDP) of Latin America and the Caribbean Basin was about $1.5 trillion in 1994, with growth expected to average 5 percent or more through the year 2000. The U.S. supplies over two-fifths of the region's imports. There is no other part of the world where the United States is so competitively positioned.

• Europe and Asia are actively courting the region. The European Union (EU) has agreed with Argentina, Brazil, Paraguay and Uruguay (MERCOSUR) to negotiate a reciprocal agreement. Similarly, the EU is negotiating an agreement with Chile that should also lead to a reciprocal trade agreement. The largest trading partner of the MERCOSUR is the EU.

• Preferential trade agreements with major U.S. competitors, once completed, would put U.S. exporters at a disadvantage in the largest market in Latin America. It would not be in our interest to allow these competitors to negotiate better access and treatment for their goods and services than the U.S. has for its products and services.

• Latin America intra-regional trade is exploding, up 74 percent from 1990 to 1994 from $20 billion to $35 billion. The region itself is very active with trade agreements. For example, the MERCOSUR has concluded a free trade area with Chile which will eliminate tariffs and quantitative restrictions; it is negotiating one with Bolivia. Mexico has proposed a reciprocal trade agreement with MERCOSUR, and is working on agreements with Central America to add to its agreements with Chile, Venezuela, Colombia and Costa Rica. Chile also has agreements with Venezuela, Colombia, Peru and is working on one with Bolivia.

## *Why the NAFTA?*

• The NAFTA serves as the hemispheric benchmark for trade agreements, one that is based on the input of globally competitive U.S. industries and sectors. An open market in the hemisphere that reflects at least the rules of the NAFTA and its vigor in opening markets would level the hemispheric playing field and lock open the market for U.S. sales.

• While the content of the newer agreements being negotiated throughout Latin America is more comprehensive and effective in opening markets than was the case in the past, none of the agreements negotiated are as comprehensive as the NAFTA.

• A Free Trade Area of the Americas (FTAA) modeled on NAFTA would require these countries to open their investment, IPR and services regimes to a significant degree thus creating a more level trade playing field for competitive U.S. producers and workers.

• The NAFTA provides a standard of market openness and reciprocal fairness that should become the minimum norm for trade relations within the Western Hemisphere. The rules of the NAFTA go far beyond the mere elimination of tariffs and other restrictions at borders.

• NAFTA rules open government procurement markets; ensure that standards regarding product certification and other related norms for selling are not disguised barriers to preclude import competition; improve the protection of intellectual property rights (i.e., patents, copyrights, trademarks, etc.); and ensure access on equitable terms for foreign and domestic investors.

# *Recovery and Reform Decade of the 1990s Provides Even More Opportunities In Latin America and the Caribbean*

**By William J. Des Rochers**
***Office of Inter-American Affairs, U.S. Department of Commerce***

Many have applauded the Latin America and Caribbean region's economic recovery from the "lost decade" of the 1980s and the efforts at subregional integration currently underway. Regional advocates contend that in addition to providing more stable economic environments, the recovery and reform decade of the 1990s has provided even greater opportunities for U.S. entrepreneurs. These advocates are right. For those willing to enter the international marketplace, Latin America and the Caribbean provide numerous opportunities in all sectors, across the board.

As trade regimes have been reformed, policies are increasingly transparent — the rules of the road are clearer — and barriers to trade have been reduced. This is not to say that the regional market is always easy. Entrepreneurs should remain prudent in developing markets, thoroughly research the market niche, seek out good representation, and exercise patience. Those that do will be rewarded over the long term. A look at the numbers reveals why.

## *The U.S. Exports to the Region In Virtually All Product Categories*

In 1995, U.S. exports to the region exceeded $94 billion. Excluding Mexico, U.S. exports amounted to about $48 billion, and provided the only significant regional trade surplus in 1995. The United States exported in virtually all product categories, but the most significant manufacturing products were:

- motor vehicles and automotive parts and accessories;
- data processing and other office equipment, and parts;
- telecommunications equipment

This U.S. export performance was impressive. Total exports to the region increased by over one-fifth, and in about two-thirds of the countries, the U.S. recorded double-digit increases. Among our top third markets, the U.S. exported less only to Argentina and Costa Rica, and increased its exports to the best market — Brazil — by more than 40 percent.

The trend has moderated during the early part of 1996. Through May — the latest month for which statistics are available — U.S. exports to non-NAFTA partners show a small decline. The trade surplus is running at an annual rate of $2 billion. However, a marked recovery in U.S. exports to Mexico has fueled an overall export expansion to the hemisphere of about 5 percent.

The U.S. trade resurgence during this decade reflects the market opening strategy employed by many countries to spur economic growth. Not only are these countries increasing their growth rates through sounder economic policies, they also are positioning themselves to be global competitors in the next century. This strategy reinforces the importance of still closer trade ties with the region. The efforts of 34 nations to achieve a free trade area by 2005 will help to ensure that the U.S. maintains its market share over the medium and longer term.

## *The U.S. Has A Strong Investment Presence in the Region*

Foreign direct investment in the region is becoming increasingly important to the United States as well as to the individual countries in the hemisphere. Parent company shipments to their affiliates in the hemisphere accounted for about $21 billion in 1993, and generated a trade surplus in intracompany transfers. This regional presence also contributes to the economic growth of the region: fully $161 billion in regional sales were accounted for by U.S. affiliates in 1993 — about 15 percent of regional GDP.

Moreover, U.S. foreign direct investment is important because it meets primary global competitors head-on. For example, according to recent data published by the Inter-American Development Bank, total Japanese foreign direct investment flows in 1994 amounted to $1.6 billion, the European Union accounted for $7.0 billion, and the United States $13.7 billion. A strong U.S. investment presence in the region helps retain the historical U.S. comparative advantage in the region.

### *New Publication*

***U.S. Exports to Latin America and the Caribbean, a State by State Overview 1993-1995***, has just been prepared by the International Trade Administration. This publication provides statistics on individual states' merchandise export sales to the region. Data are furnished for state exports to the region as a whole, for selected major trading partners, and for the region's major economic organizations (Andean Pact, MERCOSUR, etc.). Copies can be obtained from the Association of American Chambers of Commerce of Latin America, at (202) 463-5485. Requests can also be faxed to (202) 463-3126, or mailed to 1615 H St., NW., Wash., D.C. 20062-2000.

# Hemispheric Commercial Integration Accelerates Toward 2005

By John M. Andersen
*Office of Inter-American Affairs, U.S. Department of Commerce*

At the Summit of the Americas (SOA), held in Miami in June 1994, the 34 democratically-elected Heads of State from the western hemisphere agreed to achieve a Free Trade Area of the Americas (FTAA) by 2005. By doing so, they set in motion a process that, when negotiated and fully implemented, will comprise the largest free trade arrangement in history, encompassing an area with an overall GNP in excess of $9 trillion and a market of over three-quarters of a billion people.

## *Intra-Regional Trade Arrangements: The Pace Quickens*

Yet not all countries within the region are waiting for 2005. Intra-regional and bilateral economic integration in the hemisphere has a long, established tradition, one that is accelerating as the hemisphere moves toward creating the FTAA. Presently, more than 20 regional and subregional trade arrangements exist within the hemisphere. And the number is growing.

Day by day the number grows ever larger as new agreements are announced, negotiations are begun, or existing arrangements are augmented by new members. The most recent developments along these lines include:

- Mexico's announced plans to conclude a free trade agreement with Central America's "northern triangle" of El Salvador, Honduras and Guatemala within the next year;
- July meetings involving Chilean President Frei and his Central American counterparts aimed at boosting trade, investment and economic integration between the regions;
- Chile's conclusion of an association relationship with members of the Southern Cone Common Market (MERCOSUR, comprised of Argentina, Brazil, Paraguay and Uruguay); and
- Ongoing Chile-Canada bilateral negotiations seeking a free trade relationship among the two nations as a precursor to full Chilean membership in the North American Free Trade Agreement (NAFTA).

## *Major Hemispheric Trade Arrangements*

Six of the more than 20 regional trade arrangements are relatively more significant based on intragroup trade. These six groups span the spectrum from free trade areas to common markets. Among the free trade areas are the NAFTA, comprising the United States, Canada and Mexico, and the Group of Three (G-3), composed of Colombia, Mexico and Venezuela. Several smaller free trade arrangements also exist (e.g., the Chile-Mexico Free Trade Agreement) within the region. The ANDEAN Pact, composed of Bolivia, Colombia, Ecuador, Peru and Venezuela, is a customs union. The last three major regional arrangements, including MERCOSUR, the Caribbean Community and Common Market (CARICOM) and the Central American Common Market (CACM), either are, or aspire to become, common markets.

## *Reaching Beyond the Hemisphere*

Recently, the region has witnessed a new development, the increased presence of non-western hemisphere nations seeking to enter into bilateral and regional trade arrangements. The European Union is anxious to expand its traditional, but heretofore low-key, commercial relationship with Latin America. As a consequence, the EU has signed framework economic agreements with MERCOSUR and Chile, and is negotiating to do the same with Mexico. Each looks toward the eventual establishment of free trade areas. To some, this is a disquieting development, one that appears to jeopardize some of the potential benefits awaiting U.S. firms once the FTAA is concluded. For the moment, it is too early to determine what effect, if any, either of these arrangements may have on U.S. market share.

## *What's At Stake?*

In a real sense, all of these integration agreements and progress toward the FTAA reflect growing worldwide appreciation of the burgeoning economic strength and political stability of the Latin region — an appreciation that American firms have long held. Latin America is already the second fastest growing region in the world for U.S. exports and a major recipient of U.S. investment. Between 1984 and 1995, our exports to Latin America (Mexico, Central America, and South America) grew from about $30 billion to $96 billion and support about one million export-oriented jobs. U.S. investment flows increased substantially throughout this decade, particularly in Chile, the Mercosur countries and in the Caribbean and Central America — over $8 billion entered those countries from the United States in 1994.

Despite recent economic setbacks, particularly in Mexico, Latin America remains on a solid track for prosperous growth. A leading private sector forecaster estimates that real growth will exceed 5 percent over the remainder of the decade and that investment will grow at an even faster rate. Thus, an attractive market for the United States will grow even more attractive, both in the short term and into the future as the move toward the FTAA gains ground.

# *Hemispheric Trade Ministers Achieve Concrete Progress*

**By Stephen P. Jacobs**
***Director, Office of Inter-American Affairs, U.S. Department of Commerce***

Achieving the Free Trade Area of the Americas (FTAA) by 2005 is critical to the Administration's commercial and diplomatic strategy. Liberalizing the flow of goods and services, fostering investment and implementing transparent, predictable trade rules not only means increased opportunities for U.S. firms and workers, but it is also instrumental to the region's continued economic prosperity and political stability.

Much has been accomplished since Heads-of-State from within the region agreed to the FTAA more than 24 months ago. At the first Ministerial held in Denver in July 1995, seven initial working groups were established — market access, customs and rules of origin, subsidies, antidumping and countervailing duties, investment, standards and technical barriers to trade, sanitary and phytosanitary measures and smaller economies. Between Denver and the second Ministerial held in Cartagena, Colombia, March 21, 1996, each working group met at least three times, and as a consequence, made major advances on compiling data necessary for conducting detailed negotiations.

At Cartagena, Ministers achieved significant agreement toward launching actual FTAA negotiations (a complete copy of the Ministerial Declaration may be viewed at the International Trade Administration's web site at **http://www.ita.doc.gov**), reaching decisions on a number of key issues.

A number of areas for immediate action, or business facilitation measures, were agreed to in line with the Ministerial pledge to achieve concrete progress "by the end of this century" toward attainment of the FTAA by 2005 (see box at right). Significantly, work groups were instructed to develop additional business facilitation measures in advance of the next Ministerial.

Brazil has developed an agenda for three Vice Ministerial meetings (as agreed at Cartagena): one in September, another in mid-December and the last immediately before the Trade Ministerial. In addition, to ensure better coordination and liaison between each of the work groups, and the work groups and the Tripartite Commission, Brazil has organized a meeting of working group chairs, July 31-August 1, in Washington, D.C.

In the interim, the Administration invites interested parties to submit ideas relating to additional business facilitation measures in line with the Minister's decision at Cartagena. Ideas may be sent care of: The Office of Inter-American Affairs, Room 3025, U.S. Department of Commerce, 1401 E St., NW., Washington, D.C. 20230; tel. (202) 482-2436, fax (202) 482-4726. In addition, those desiring a copy of the Cartagena Ministerial Proceedings (out in early fall), may contact Liliana Arrazola of the Colombian Ministry of Foreign Trade by phone (571) 286-9111, or by fax (571) 334-99[illegible]8.

## Business Facilitation Measures

In addition to the guidance provided elsewhere in this document, the relevant working groups are requested to implement the following areas for immediate action:

***Market Access***
- Keep data bases current; make them public, once contents have been approved by governments.

***Customs Procedures and Rules of Origin***
- Develop and improve the complete inventory of customs procedures in the Hemisphere and publish the Customs Procedures Manual for use by the private sector.
- Make recommendations on promoting electronic filing of customs documentation.

***Investment***
- Publish a guidebook on investment regimes in the Hemisphere.
- Promote accession to existing arbitral conventions.
- Publish the inventory of investment agreement and treaties in the region.

**Standards and Technical Barriers to Trade**
- Develop proposals on mutual accreditation of testing facilities.
- Prepare an inventory of standards and related measures.

**Subsidies, Antidumping, and Countervailing Duties**
- Release the compendium of the Hemispheric trade laws and procedures being compiled by the OAS.

**Sanitary and phytosanitary measures**
- Develop proposals on ways to promote the recognition of sanitary and phytosanitary certificates among countries in the Hemisphere.

**Smaller Economies**
- Make recommendations on measures, including technical assistance, to facilitate the integration of smaller economies into the FTAA.

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P5 Dec

Clinton Likely to Visit Latin America in Early May (Update1)

(Adds comments from former President Jimmy Carter in penultimate paragraph)

Washington, Jan. 28 (Bloomberg) -- President Bill Clinton will likely visit Latin America in early May for talks about how to stop drug trafficking and boost trade and investment, a White House official close to the planning said.

Clinton's special envoy to Latin America, Mack McLarty will travel to Chile in the next two weeks to finish preparations for Chilean President Eduardo Frei's state visit to Washington at the end of February. Frei's will be the first state visit in Clinton's second term.

In December, Clinton met with Argentine President Carlos Menem in the Oval Office and the two discussed a Clinton visit there as well. Officials working on the trip said stops in both Chile and Argentina are likely.

Chile and Argentina seek a trading relationship with the U.S. similar to the one Mexico now enjoys. Mexico has become the U.S.' third largest trading partner since the passage of the North American Free Trade Agreement, or Nafta, which broke down tariffs between the U.S., Canada and Mexico.

Latin America is one of the few regions in the world where the U.S. runs a trade surplus. The U.S. is running a surplus of about $4 billion a year in South America alone.

Home Depot Inc., the Atlanta, Georgia-based home improvement retailer, today announced it'll build its first store outside the U.S. in Santiago, Chile.

Home Depot said it is teaming up with Falabella, a Chilean department store retailer, to open the store in the first half of next year.

``Pent-up demand for home improvement materials,'' said Home Depot president and CEO Arthur M. Blank, makes Chile ``the ideal country in which to kick off our international expansion.'' Home Depot also plans to open stores in other Latin American countries, he said.

The late Commerce Secretary Ron Brown paved the way to Latin America for many U.S. companies when he traveled to the region with top CEOs on a trade mission in 1994.

This evening, Clinton got a briefing at the White House from former U.S. President Jimmy Carter on his own recent private visit to Chile, Argentina and Brazil. ``I just gave him a report on my trip,'' Carter said when he emerged from the Oval Office. He said the two men had discussed Clinton's travel plans and declined to elaborate.

Logistics and the stops for Clinton's visit to Latin America are still being worked out, the Clinton aide said, speaking on condition of anonymity.

--Dina Temple-Raston at the White House (202) 624-1884/rdm

Story illustration: For a graph of the Argentine index of top shares:
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Carter returns to White House for chat with Clinton

WASHINGTON (AP) Former President Jimmy Carter returned to the White House on Tuesday, telling President Clinton about his recent trip to South America and the Caribbean.

The two presidents, both Democrats, huddled in the Oval Office following Clinton's first news conference of his second term, said White House spokeswoman Mary Ellen Glynn.

They talked about Carter's 10-day visit to the region, Glynn said. Clinton plans to use the information in preparing for his meeting next month with president of Chile and for his own trip to South America later this year.

They also discussed the 21st Century Agenda for the Americas, a program that the Atlanta-based Carter Center will sponsor this spring.

Carter, 72, went to South America to consult with leaders there for the upcoming program. He made stops in Argentina, Brazil, Chile and Jamaica.

While in Jamaica, Carter criticized an economic embargo on Cuba that Clinton pushed last year as ``one of the worst mistakes my country has ever made'' because it allows Cuban leader Fidel Castro to portray himself as a martyr while doing little to advance democracy in Cuba.

**** filed by:APE-(--) on 01/28/97 at 23:03EST ****
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# Joblessness Drops Below 3% in 57 Areas

## Immigration Centers Fare Worst; Lowest Rates Are in College Towns

By CHRISTINA DUFF
*Staff Reporter of* THE WALL STREET JOURNAL

WASHINGTON – In a sign of how tight labor markets have become, a whopping 57 metropolitan areas posted unemployment rates below 3% in April, up from 37 the month before.

Big college towns reported the lowest unemployment, in a month when the U.S. jobless rate dropped to a quarter-century low of 4.9%, seasonally adjusted. Lincoln, Neb., led the way with a 1.4% April unemployment rate, followed by 1.6% in Raleigh-Durham-Chapel Hill, N.C., the Labor Department said. The rate was 1.7% in both Madison, Wis., and Sioux Falls, S.D. (Local numbers aren't seasonally adjusted.)

Areas with the highest unemployment rates tended to be prime destinations for immigrants, who typically have a tougher time finding jobs than do U.S.-born citizens. The McAllen-Edinburg-Mission, Texas, area had the highest unemployment rate at 16.3%, followed by two areas in California – Modesto, 14.6%, and Fresno, 14.2%.

**Jobs Abound Across the Land**

April unemployment rates, not seasonally adjusted

| BY STATE | | BY METROPOLITAN AREA | |
|---|---|---|---|
| **Lowest rates:** | | **Lowest rates:** | |
| Nebraska | 1.9% | Lincoln, Neb. | 1.4% |
| South Dakota | 2.6 | Raleigh-Durham-Chapel Hill, N.C. | 1.6 |
| New Hampshire | 2.8 | Sioux Falls, S.D. | 1.7 |
| North Dakota | 2.9 | Madison, Wis. | 1.7 |
| Utah | 2.9 | Bryan-College Station, Tex. | 2.0 |
| **Highest rates:** | | **Highest rates:** | |
| New York | 8.6% | McAllen-Edinburg-Mission, Tex. | 16.3% |
| Alaska | 8.3 | Modesto, Calif. | 14.6 |
| West Virginia | 7.5 | Fresno, Calif. | 14.2 |
| District of Columbia | 6.8 | Steubenville-Weirton, Ohio | 13.3 |
| California | 6.4 | Brownsville-Harlingen-San Benito, Tex. | 12.2 |

*Source: Labor Department*

Over the past 12 months, three areas saw unemployment rates drop by 2.1 percentage points, the largest decline nationwide: Dubuque, Iowa; Laredo, Texas; and Nashua, N.H.

Meanwhile, labor markets in the Ohio-Pennsylvania area were hardest hit. Steubenville-Weirton, Ohio, saw its unemployment rate shoot up 7.2 percentage points, partly reflecting a strike by steel workers; it climbed 1.9 percentage points in Sharon, Pa., and 1.7 points in Wheeling, W.Va. But those were the only areas that had rate increases of one percentage point or more over the year.

The Midwest still appears to be the best place to get a job. In the state-by-state tally, Nebraska had the best of the pack with a 1.9% unemployment rate. New Yorkers, meanwhile, continue to suffer; the state's unemployment rate was 8.6% in April.

Over the last year, not one state reported an unemployment-rate increase. The District of Columbia, New Hampshire and Washington had the largest over-the-year declines, at 1.5 percentage points each, followed by Mississippi, New Mexico and South Carolina, at 1.3 percentage points each.

# U.S., EU Draft Pact on Trade-Product Standards

By BRIAN COLEMAN
*Staff Reporter of* THE WALL STREET JOURNAL

THE HAGUE – After three years of unsuccessful negotiations, the U.S. and top officials of the European Union have drafted a surprise agreement to accept each other's industrial and regulatory standards for a wide range of products including appliances, pharmaceuticals and telecommunications equipment.

Trans-Atlantic trade in such goods amounts to $40 billion a year. A draft of the so-called Mutual Recognition Agreement (MRA) came as President Bill Clinton met with EU leaders amid celebrations of the 50th anniversary of the Marshall Plan, which helped rebuild Europe after World War II.

"We feel we have a breakthrough and we hope it will lead to an agreement in the next few days," Mr. Clinton said after reaching the recognition accord with Dutch Prime Minister Wim Kok and European Commission President Jacques Santer. Although the European officials echoed Mr. Clinton's optimism, there's no certainty that the draft will win approval from the 15 EU member states.

Both American and European industrial groups have lobbied hard for the MRAs, which should eliminate cumbersome and expensive certification and inspection requirements. Once a product receives the stamp of approval on one side of the Atlantic, it could be automatically sold on the other side as well.

The U.S. Commerce Department estimates that U.S. and European companies could save about $172 million a year in legal and bureaucratic costs. Mutual recognition is one of the few outstanding areas where the U.S. and the EU can significantly cut trade barriers. The two sides already have eliminated most tariffs and resolved most major trade disputes – such as the recent disagreements over Europe's continuing trade with Cuba, Iran and Libya. U.S.-EU trade currently totals $250 billion a year.

The two sides originally hoped to strike a deal last year, but the talks ran aground on a U.S. law requiring the Food and Drug Administration to retain the right to certify all pharmaceuticals in the U.S. Yesterday, Clinton administration officials said that the draft agreement will leave that right untouched, but that both the EU and the U.S. will train inspectors simultaneously so that the certification procedures will be as compatible as possible.

"The key point is that the EU has understood and accepted that the FDA is an agency dedicated to preserving health and safety," said U.S. Trade Representative Charlene Barshefsky. "It cannot be overridden or overruled."

In addition to the MRA deal, the U.S. and the EU signed a customs cooperation accord. The two sides also agreed to work together to control chemicals used in making illegal drugs.

But the progress made yesterday won't bring an end to mutual-recognition issues or to the remaining difficulties plaguing trans-Atlantic trade relations. The MRAs don't cover some industrial sectors. On automobiles, for example, official say it may take 10 to 15 years before cars that meet Greek or German safety standards will be accepted automatically on American roads.

Nor did Mr. Clinton and the EU leaders take up the sensitive question of the European Commission's antitrust investigation into the planned merger of Boeing Co. and McDonnell Douglas Corp. EU Competition Commissioner Karel Van Miert has informed the two companies of his concerns, and senior EU officials say he wants Boeing to give up the single-supplier deals it has with two U.S. airlines before he grants his approval.

The case is raising concern in the U.S. administration that the commission is mixing politics with commerce by supporting European aircraft consortium Airbus Industrie. "[We want] assurances that the inquiry must be conducted on competition policy principles and not on extraneous political principles," Ms. Barshefsky told reporters in the Hague.

But EU officials said the issue wasn't discussed by Mr. Clinton in his meeting with Mr. Kok and Mr. Santer.

THE WALL STREET JOURNAL
THURSDAY, MAY 29, 1997

The Heritage Foundation Backgrounder

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May 16, 1997

# NAFTA'S THREE-YEAR REPORT CARD: AN "A" FOR NORTH AMERICA'S ECONOMY

## INTRODUCTION

President Bill Clinton is legally required to provide Congress with a detailed "report card" by July 1, 1997, covering the first three years of implementation of the North American Free Trade Agreement (NAFTA), which includes the United States, Mexico, and Canada. This report will come under intense congressional scrutiny because many Members of Congress have indicated that their willingness to renew the President's fast-track negotiating authority will depend on their perception of how well NAFTA has performed during its first three years. If the Clinton Administration's report is objective and accurate, it will show NAFTA to be a remarkable success.

Despite the doomsday warnings about what would happen under NAFTA, hundreds of thousands of U.S. jobs have *not* been destroyed, the U.S. manufacturing base has *not* been weakened, and U.S. sovereignty has *not* been undermined. Instead, total NAFTA trade has increased, U.S. exports and employment levels have risen significantly, and the average living standards of American workers have improved.

Indeed, if NAFTA were to be graded on its effects after only three years, it would receive an "A+" for enhancing the level of trade between the United States and its North American neighbors; an "A+" for increasing the number of U.S. jobs that support this increased trade; an "A+" for its positive impact on manufacturing and on the personal income of American workers; and a "B" both for encouraging U.S. compliance with implementation of NAFTA's deadlines and for improving U.S. relations with Mexico in general. Finally, although much more can be done, NAFTA has been instrumental in the strides Mexico has made in liberalizing its economy, and is one reason Mexico is taking steps to reform its political system. With this kind of report card, Congress should have no doubts about the success that NAFTA has achieved.

*Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.*

# THE NAFTA REPORT CARD

The Clinton Administration's three-year evaluation should rate the effects of the North American Free Trade Agreement as follows:

- **Growth in Trade: A+**

  Total North American trade increased from $293 billion in 1993 to $420 billion in 1996, a gain of $127 billion or 43 percent during NAFTA's first three years.[1] If that gain had been with a single country, it would have made that country the fourth-largest trading partner of the United States. In 1996, U.S. exports to Canada and Mexico, at $190 billion, exceeded U.S. exports to any other area of the world, including the entire Pacific Rim or all of Europe. Mexico and Canada purchased $3 of every $10 in U.S. exports and supplied $3 of every $10 in U.S. imports in 1996. Overall, total U.S. exports of goods and services grew from $602.5 billion in 1993—the last year before NAFTA was implemented—to $825.9 billion in 1996, a gain of $223.4 billion.[2]

- **Growth in U.S. Exports: A+**

  Thanks to NAFTA, Mexican tariffs—which had averaged 10 percent before the trade agreement was implemented—now average less than 6 percent, while average U.S. tariffs have fallen from 4 percent to about 2.5 percent. As a result, U.S. exports to Mexico grew by 37 percent from 1993 to 1996, reaching a record $57 billion.[3] During this period, U.S. exports to Canada also increased by 33 percent, to $134 billion. Total two-way trade between the United States and Canada was $290 billion in 1996, while total two-way trade between the United States and Mexico was nearly $130 billion. According to the U.S. Department of Commerce, U.S. exports to Mexico in the fourth quarter of 1996 were growing at an annualized rate of $64 billion. Moreover, U.S. market share in Mexico increased from 69 percent of total Mexican imports in 1993 to 76 percent in 1996.[4] During NAFTA's first three years, 39 of the 50 states increased their exports to Mexico; moreover, 44 states reported a growth in exports to Mexico during 1996 as the pace of U.S. exports to that country accelerated.[5]

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1 In 1996, U.S. global trade (exports plus imports) totaled $1.765 trillion—over 23 percent of U.S. GDP, compared with 10 percent in 1970. The Office of the U.S. Trade Representative (USTR) has estimated that by 2010, trade will represent about 36 percent of U.S. GDP. Since 1988, almost 70 percent of U.S. economic growth has been derived solely from exports (roughly 25 percent since 1992). More than 11 million U.S. jobs depend on exports, 1.5 million more than in 1992; 20 percent of American jobs are supported by trade and pay between 13 percent and 16 percent more, on average, than non-export jobs.

2 The U.S. Department of Commerce estimates that every $1 billion increment in U.S. exports creates 22,800 new jobs in the United States. This would mean that U.S. export growth from 1993 to 1996 was responsible for creating over 5 million U.S. jobs, or 57.7 percent of the 8.8 million net new payroll jobs created by the U.S. economy during this three-year period.

3 Exports of U.S. components to Mexico's duty-free component assembly industry made up approximately 28 percent of total U.S. exports to Mexico in 1996, according to a report for the USTR by the U.S. International Trade Commission (ITC). The ITC found that the use of U.S. components in Mexican assembly plants had grown at an average yearly rate of 15.8 percent since NAFTA was implemented in 1994.

4 Testimony of Regina Vargo, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce, before the Subcommittee on International Economic Policy and Trade of the House Committee on International Relations, March 5, 1997.

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- **Growth in U.S. Employment: A+**

  NAFTA has shattered the myth that U.S. trade deficits destroy U.S. jobs. The combined U.S. trade deficit with Canada and Mexico increased during the first three years of NAFTA's implementation—from $9 billion in 1992 to $39.9 billion in 1996—because Canada and Mexico suffered economic recessions. Since 1992, however, the U.S. economy has created 12 million net new jobs. Moreover, manufacturing employment grew from 16.9 million jobs in 1992 to 18.3 million in 1993, an increase of 1.4 million net new jobs.[6] The general unemployment rate declined from 7.5 percent in 1992 to 5.3 percent in 1996. U.S. exports to NAFTA countries currently support 2.3 million U.S. jobs.[7]

- **Output Gains for U.S. Manufacturing: A+** Mexico - 400k

  The largest post-NAFTA gains in U.S. exports to Mexico have been in such high-technology manufacturing sectors as transportation and electronic equipment, industrial machinery, plastics and rubber, fabricated metal products, and chemicals.[8] NAFTA also has been a boon for major U.S. agricultural states like Montana, Nebraska, and North Dakota, and traditional southern textile states like North Carolina and Alabama. NAFTA has encouraged U.S. and foreign investors with apparel and footwear factories in Asia to relocate their production operations to Mexico. This diversion of investment from Asia to Mexico "saved the heavier end of clothing manufacture in the U.S.: the textile mills," as Rich Nadler, a journalist who has covered NAFTA's progress since 1992, recently observed.[9]

- **Improved Standards of Living for American Workers: A+**

  According to Nadler, who has reviewed pre- and post-NAFTA growth rates in U.S. standards of living, the rate of increase in personal wealth has more than tripled since NAFTA was implemented.[10] His review measured the improvement in three ways: (1) inflation-adjusted gross domestic product (GDP) per capita grew by 1.79 percent annually in 1994 and 1995, compared with only 0.23 percent from 1990 to 1993; (2) disposable personal income growth, adjusted for inflation, averaged 1.89 percent annually in 1994 and 1995, compared with 0.25 percent annually from 1990 to 1993; and (3) personal consumption expenditures grew by an inflation-adjusted 1.76 percent annually during 1994 and 1995, compared with 0.56 percent a year from 1990 to 1993.

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5 Data from Massachusetts Institute of Social and Economic Research.

6 As of February 24, 1997, 110,408 U.S. workers had been certified as eligible for training assistance under NAFTA's Trade Adjustment Assistance Program, administered by the U.S. Department of Labor. The U.S. economy, however, currently creates this many net new jobs in about two weeks. The general U.S. unemployment rate declined from 7.5 percent in 1992 to 5.3 percent in 1996.

7 Office of the USTR, "NAFTA and Jobs," 1996.

8 Since 1992, U.S. industrial production has increased 18 percent. During this four-year period, U.S. manufactured exports increased 42 percent, high-technology exports rose 45 percent, services exports were up 26 percent, and agricultural exports expanded 40 percent. The Western Hemisphere and the Asian Pacific Rim now account for over 70 percent of total U.S. exports, up from 65 percent in 1992.

9 Rich Nadler, "NAFTA: Jobs, Jobs, Jobs," *K. C. Jones*, Overland Park, Kansas, April 1997.

10 *Ibid.*

- **U.S. Compliance with NAFTA: B**

  In December 1995, the Clinton Administration postponed indefinitely the implementation of a NAFTA deadline to allow Mexican trucks to circulate in the southwest United States. The Administration based its decision on concerns relating to transport safety and the fight against drug traffickers. The President, however, was acting in response to pressures from union and environmentalist groups that joined forces with bipartisan anti-drug hawks to block implementation of that provision of NAFTA. The decision established a negative precedent but did nothing to improve Mexican truck safety or diminish the flow of illegal drugs across the porous and unguarded U.S.–Mexico border.

- **U.S.–Mexico Trade Relations: B**

  President Clinton's first official trip to Mexico this month came at a time in which relations between the two countries were at their lowest point in years.[11] The trade and investment growth achieved during NAFTA's first three years has been eclipsed by the peso crisis and political turmoil in Mexico and by growing bilateral tensions over drug control policy, immigration, and the Helms–Burton Act's tightening of economic sanctions against Cuba. These tensions in U.S.–Mexico relations have surfaced because the Clinton Administration did not assign a sufficiently high priority to Mexico during its first term in office. Protectionists have laid the blame for all of these problems at NAFTA's door. NAFTA, however, was never intended to be anything other than a free trade agreement—a three-way pact by the United States, Mexico, and Canada to eliminate all tariff and non-tariff barriers to trade over a period of 10 to 15 years. NAFTA was designed to encourage faster growth in North American trade and investment, which it has been doing successfully since January 1, 1994. It was not meant to solve other problems in U.S.–Mexico relations.

- **Reform Process in Mexico: A**

  Although Mexico has made great strides during the past decade in liberalizing its economy and reforming its closed political system, it still is undergoing a difficult transition from a closed economy and political system to an open capitalist democracy. Moreover, this transition will continue for at least another decade or two. One of NAFTA's important achievements has been to "lock in" the process of economic and political reform under way in Mexico for the past decade. Mexico's membership in NAFTA, the World Trade Organization, the Asia-Pacific Economic Cooperation forum, and the Organization for Economic Cooperation and Development has created international commitments and linkages that it cannot ignore. Even though The Heritage Foundation's *1997 Index of Economic Freedom* still accords Mexico a ranking of 3.35, or "Mostly Not Free,"[12] Mexico has become a more democratic country since NAFTA was implemented. Under President Ernesto Zedillo, Mexico's constitution was amended in 1996 to make the electoral process more free, more transparent, and more independent of the government. These reforms, in effect for Mexico's

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11 Julia Preston, "U.S. Trying to Smooth Mexico Path for Clinton," *The New York Times*, April 20, 1997, p. 4.

12 Kim R. Holmes, Bryan T. Johnson, and Melanie Kirkpatrick, eds., *1997 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Co., Inc., 1997), pp. 306–308.

- **U.S. Compliance with NAFTA: B**

  In December 1995, the Clinton Administration postponed indefinitely the implementation of a NAFTA deadline to allow Mexican trucks to circulate in the southwest United States. The Administration based its decision on concerns relating to transport safety and the fight against drug traffickers. The President, however, was acting in response to pressures from union and environmentalist groups that joined forces with bipartisan anti-drug hawks to block implementation of that provision of NAFTA. The decision established a negative precedent but did nothing to improve Mexican truck safety or diminish the flow of illegal drugs across the porous and unguarded U.S.–Mexico border.

- **U.S.–Mexico Trade Relations: B**

  President Clinton's first official trip to Mexico this month came at a time in which relations between the two countries were at their lowest point in years.[11] The trade and investment growth achieved during NAFTA's first three years has been eclipsed by the peso crisis and political turmoil in Mexico and by growing bilateral tensions over drug control policy, immigration, and the Helms–Burton Act's tightening of economic sanctions against Cuba. These tensions in U.S.–Mexico relations have surfaced because the Clinton Administration did not assign a sufficiently high priority to Mexico during its first term in office. Protectionists have laid the blame for all of these problems at NAFTA's door. NAFTA, however, was never intended to be anything other than a free trade agreement—a three-way pact by the United States, Mexico, and Canada to eliminate all tariff and non-tariff barriers to trade over a period of 10 to 15 years. NAFTA was designed to encourage faster growth in North American trade and investment, which it has been doing successfully since January 1, 1994. It was not meant to solve other problems in U.S.–Mexico relations.

- **Reform Process in Mexico: A**

  Although Mexico has made great strides during the past decade in liberalizing its economy and reforming its closed political system, it still is undergoing a difficult transition from a closed economy and political system to an open capitalist democracy. Moreover, this transition will continue for at least another decade or two. One of NAFTA's important achievements has been to "lock in" the process of economic and political reform under way in Mexico for the past decade. Mexico's membership in NAFTA, the World Trade Organization, the Asia-Pacific Economic Cooperation forum, and the Organization for Economic Cooperation and Development has created international commitments and linkages that it cannot ignore. Even though The Heritage Foundation's *1997 Index of Economic Freedom* still accords Mexico a ranking of 3.35, or "Mostly Not Free,"[12] Mexico has become a more democratic country since NAFTA was implemented. Under President Ernesto Zedillo, Mexico's constitution was amended in 1996 to make the electoral process more free, more transparent, and more independent of the government. These reforms, in effect for Mexico's

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July 6, 1997, elections to Congress, will accelerate both the demise of the one-party system that has dominated Mexican politics for nearly 70 years and its eventual replacement by a competitive multi-party democracy.

## NAFTA: A SUCCESS BY ANY OBJECTIVE STANDARD

The data on trade, production, and employment growth for NAFTA's first three years quantify objectively that NAFTA is good for the United States. Moreover, a recent economic analysis published by the U.S. Federal Reserve Bank of Chicago concludes that NAFTA will lead to output gains for all three participant countries.[13] These gains are roughly twice as large as those predicted by previous forecasts of NAFTA's potential for accelerated growth in North American trade, output, and employment growth.

The Federal Reserve study, based on a dynamic economic model, also predicts that the adjustment to NAFTA should be virtually completed by 2004 (although NAFTA will not be fully phased in until 2009) and that NAFTA will greatly expand the flow of all goods, both from Canada and the United States to Mexico and from Mexico to the United States and Canada. In general, bilateral Mexican–North American trade should increase about 20 percent as a result of NAFTA.[14] This projected growth also means more U.S. jobs and a higher standard of living for American workers.

## CONCLUSION

In his State of the Union speech on February 4, 1997, President Clinton called on Congress to approve new fast-track negotiating authority in order to pursue new trade initiatives in Asia and Latin America during 1997 and 1998. "Now we must act to expand our exports," the President said, "especially to Asia and Latin America—two of the fastest growing regions on earth—or be left behind as these emerging economies forge new ties with other nations."[15]

The President is right to emphasize the importance of U.S. trade with Latin America. The Western Hemisphere accounted for 39 percent of U.S. goods exports in 1996 and was the only region in which the United States recorded a trade surplus in both 1995 and 1996. As a market for U.S. goods, the Western Hemisphere already is nearly twice as large as the European Union and nearly 50 percent larger than Asia. Moreover, while U.S. goods exports to the world generally increased 57 percent from 1990 to 1996, U.S. exports to Latin America and the Caribbean (excluding Mexico) increased by 110 percent during the same period.[16] If current trends continue, Latin America alone will exceed Japan and Western Europe combined as an export market for U.S. goods by the year 2010.

Congress should have no doubts about the success of NAFTA. Although only three years old, this international trade agreement is growing with amazing speed. Even though three years may seem like too little time to reach any final judgments about NAFTA, it already is clear that critics of this agreement have been wrong on all counts.[17] Congress

13 See Michael A. Kouparitsas, "A dynamic macroeconomic analysis of NAFTA," *Economic Perspectives*, Federal Reserve Bank of Chicago, January 1997. The study concluded that, under NAFTA, Mexico's GDP is predicted to rise 3.26 percent, U.S. GDP will rise 0.24 percent, and Canada's GDP will increase by 0.11 percent.

14 *Ibid.*

15 "Clinton calls for fast-track authority in State of the Union speech," *Inside NAFTA*, Vol. 4, No. 3 (February 6, 1997), p. 1.

16 Office of the USTR.

will be acting in the U.S. national interest when it approves a new fast-track negotiating authority so that the Clinton Administration can put U.S. trade policy back on track around the world.

John Sweeney
Policy Analyst


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17 See Sydney Weintraub, "NAFTA at Three: A Progress Report," *Significant Issues Series*, Vol. XIX, No. 1, Center for Strategic and International Studies, Washington, D.C., 1997.

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Webmaster @ USTR - 28 January 1997

# NAFTA and the U.S. Economy

**The Administration's trade policy is part of a global economic strategy.** It has been among the most effective tools to attain the broad economic objectives of strengthening U.S. economic performance and expanding high-wage jobs for U.S. workers. Market-opening agreements -- both bilateral ones such as recent agreements with Japan and multilateral agreements such as the NAFTA and Uruguay Round -- expand opportunity for America's most productive, export-oriented industries and the high wage jobs they provide. They are the only way to ensure that competitive U.S. industries and workers can compete on a level playing field in the world's important markets. This is particularly significant when one considers that 95 percent of the world's consumers live outside the United States. Competitors are shaping the trading rules in emerging markets, the markets that account for the largest percentage of U.S. exports and the fastest growing component. It is literally the case that if we do not compete we are retreating in these markets. The stakes are high. American jobs supported by the export of goods pay 13% to 16% more than U.S. jobs overall. Since 1992, U.S. exports of goods and services have risen over 35%. Export supported jobs are up by 1.5 million (to 11.3 million in 1996), thus accounting for 1 out of every 8 net job increases in the United States between 1992 and 1996.

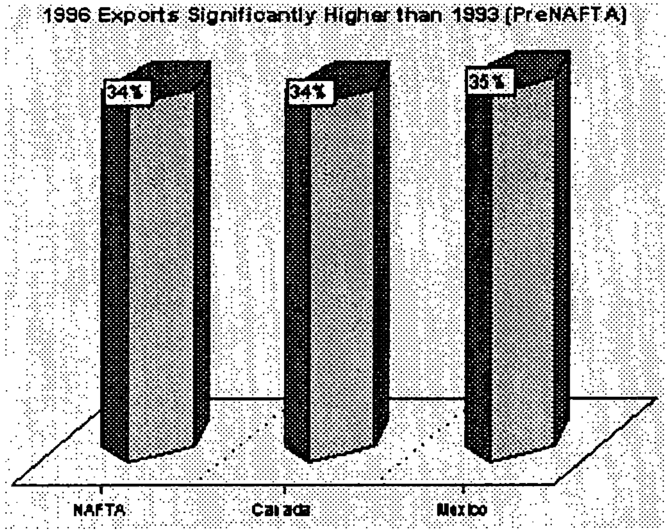
**NAFTA1 has played a vital role in helping trade expansion strengthen the U.S. economy.** NAFTA has created jobs for American workers by expanding access for U.S. goods and services in the markets of two of our top three trading partners -- Canada and Mexico. NAFTA also serves as a buffer against reduced access to those economies -- without which access to more than 120 million consumers would be jeopardized and more than two million high-wage U.S. jobs would be put at risk.

**During NAFTA's first two years, U.S. goods exports to our NAFTA partners (Mexico and Canada) were up by 22 percent or nearly $31 billion (to $173 billion),** despite the temporary peso-related decline in goods exports to Mexico in 1995. U.S. goods exports to Canada were up by 26%, while U.S. exports to Mexico were up by 11%.

**Moreover, the growth in U.S. exports to our NAFTA partners accelerated in 1996.** U.S. goods exports to our NAFTA partners were up by over 34 percent in 1996 over the same period of 1993. U.S. goods exports were up by 33% to Canada and by nearly 37% to Mexico. U.S. goods exports set records for both these countries in 1996 ($134 billion to Canada and $57 billion to Mexico). Jobs supported by U.S. goods exports to NAFTA are up an estimated 311,000 since the NAFTA's entry into force to 2.3 million in 1996.

**NAFTA did not cause the late 1994/1995 peso crisis in Mexico, nor the related 1995 Mexican recession** and the accompanying 8.9% decline in U.S. goods exports. Decisions made by the Mexican government on exchange-rate policy in the 1980s, combined with developments in 1994 in financial markets in and outside Mexico brought forth the peso crisis. As the peso plummeted in value in late 1994 and early 1995, investors shifted investments out of the Mexican market and Mexico's interest rates jumped. The result was a near 7% decline in Mexican production in 1995 -- a recession more than three times worse than the U.S. recession of 1991. The not surprising result of Mexico's difficulties was a reduction in Mexican imports and a shift in its balance in trade in goods and services from large deficits toward balance.

**During this period, the NAFTA was extremely important in protecting U.S. export-supported jobs and U.S. economic interests.** Because of the NAFTA, U.S. goods exports fared much better in 1995 than after the last Mexican financial crisis in 1982. During that crisis, before Mexico's adherence to either the GATT or the NAFTA, government officials were free to take arbitrary measures to restrict entry of imports. They imposed 100% duties on American products and strict licensing requirements, moves that caused U.S. goods exports to plunge by 50% between 1981 and 1983. U.S. jobs supported by goods exports to Mexico were cut by more than half (from an estimated 431 thousand in 1981 to 201 thousand in 1983). It took nearly seven years for U.S. exports to Mexico to return to their level of 1981.



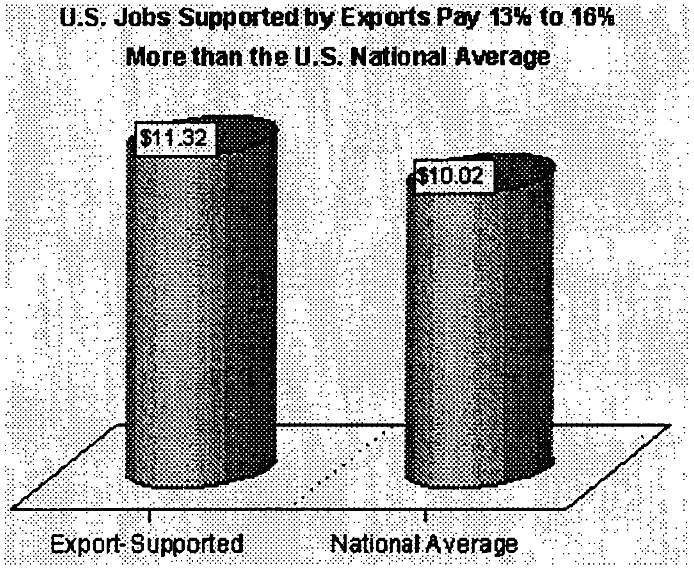

The situation in 1995 was very different. Instead of putting up barriers to U.S. exports, Mexico continued to reduce them in recognition of its NAFTA obligations. In contrast, Mexico did place additional restrictions on imports from its non-NAFTA trade partners. The U.S. share of Mexico's goods imports rose from 71% in 1994 to 74% in 1995, while Western Europe's, Japan's and Korea's goods exports to Mexico fell by 25.5%, 24.5% and 64%, respectively. For the first six months of 1996, the U.S. share was 76%. As the Mexican economy begins to stabilize and grow again, there has been a healthy recovery of U.S. goods exports. In 1996, U.S. goods exports to Mexico were actually nearly 23% higher than in 1995. It only took 18 months for U.S. exports to Mexico to fully recover from the December 1994 peso crisis, not the 7 yearsneeded after the 1982 peso crisis.

Because of Mexico's economic difficulties in 1995, there was a significant swing in the bilateral goods trade balance, from U.S. surplus of $1.3 billion in 1994 to a deficit $15.4 billion in 1995. This deterioration of the U.S. goods trade balance with Mexico contrasted sharply with improvements in U.S. bilateral trade balances with most other regions of the world. The U.S. bilateral trade surplus with the rest of Latin America between 1994 and 1995 grew $4.4 billion larger, while the deficit with Europe declined by $3.5 billion, while the Pacific Rim excluding Japan and China declined by $3 billion and with Japan alone declined by $6.5 billion.

The reason for the sharp negative swing with Mexico was Mexico's peso crisis and resultingrecession, not the NAFTA. Not only did Mexico's worldwide goods imports decline, but goods exports were enhanced by both a cheaper currency and the recession's effect of reducing Mexican demand for Mexican output, making more of it available for export. NAFTA itself only reduced the average U.S. tariff on imports from Mexico by less than 1 percentage point last year while Mexican tariffs against U.S. exports fell by more than 2 percentage points -- changes in trade treatment too balanced and far too small to explain the shift in the bilateral trade balance.

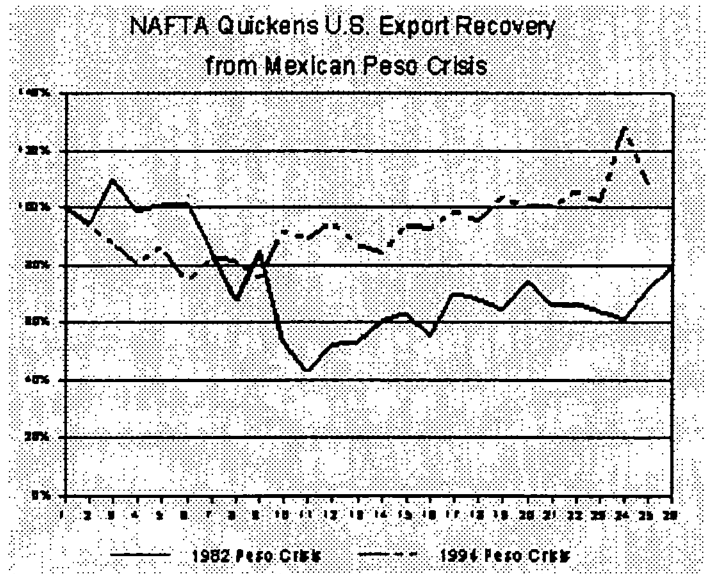
In fact, the Federal Reserve Bank of Dallas (Fed), in an article that econometrically estimated the effects of NAFTA and the Peso Crisis on U.S. exports and imports from Mexico, agreed that the peso crisis and not the NAFTA was the primary reason for the decline in U.S. exports in 1995 ("*Distinguishing NAFTA from the Peso Crisis*," Journal on the Southwest Economy, October 1996). It reported that the Peso Crisis affected U.S. exports far greater than U.S. imports. It stated that U.S. imports were basically unaffected by the crisis, whereas the decline in U.S. exports was entirely due to the crisis (i.e., the decline in Mexican income resulting from the Mexican recession that lowered GDP by nearly 7 percent in 1995). It estimates that exports would have grown by 22 percent in 1995 if the crisis did not occur. The Fed further reported that U.S. export growth to Mexico is about 7 percent higher per year with NAFTA, whereas import growth from Mexico is 2 percent higher per year with NAFTA.

The shift in the bilateral goods trade balance in 1995 came neither at the expense of U.S. workers nor particularly to the benefit of Mexican workers. The trade balance shifted because of a Mexican recession which reduced Mexican employment by 1.6 million and substantially reduced incomes. At the same time, the United States was in its 4th year of economic expansion, U.S. jobs expanded by another 1.7 million, and real national income by 2.5%. The sharp deterioration of the bilateral deficit thus was associated with recession-related woes for Mexican workers while U.S. workers continued to benefit from a sustained U.S. economic expansion, including significant export growth to Canada and to other Latin American markets.




**NAFTA will continue to serve the interests of the U.S. economy and U.S. workers long after the current Mexican recession is a distant memory.** NAFTA's existence has not only kept Mexico on track toward more open markets for U.S. exports, it has also supported Mexican government efforts to sustain the course of internal economic reform. Mexico has made major efforts in recent years to pursue economic policies more similar to those of the United States. In contrast to 1981 when Mexico was a closed economy, the more open Mexican economy of today is much better positioned to recover rapidly from its problems in 1995. Growth in Mexico was estimated to have exceeded 5% in 1996, and is forecasted to be even higher beyond 1996. An open, rapidly growing Mexican economy will help the United States. The overwhelming share of Mexico's imports come from the United States. Mexico's most critical products are produced more competitively in the United States. These products include the entire capital goods area (from road building to hospitalinstruments to telecommunications), moderately priced consumer goods for Mexico's emergent middle class (everything from blue jeans to compact discs), and food. A healthy, expanding Mexican economy means that the Mexican labor force will more easily find jobs at home, affording a modest standard of living, whose growth will offer a promise for the future.

**As Mexico begins to achieve sustainable economic growth and development, U.S. workers will benefit as well.** U.S. exports to Mexico are rising again. They will continue to grow as Mexico adheres to the healthy market-oriented fundamentals put in place in recent years. These exports support the higher productivity, higher wage jobs which U.S. workers want. The NAFTA ensures the United States will be in the best position possible to not only protect, but increase, the number of higher paying jobs supported by exports to Mexico.

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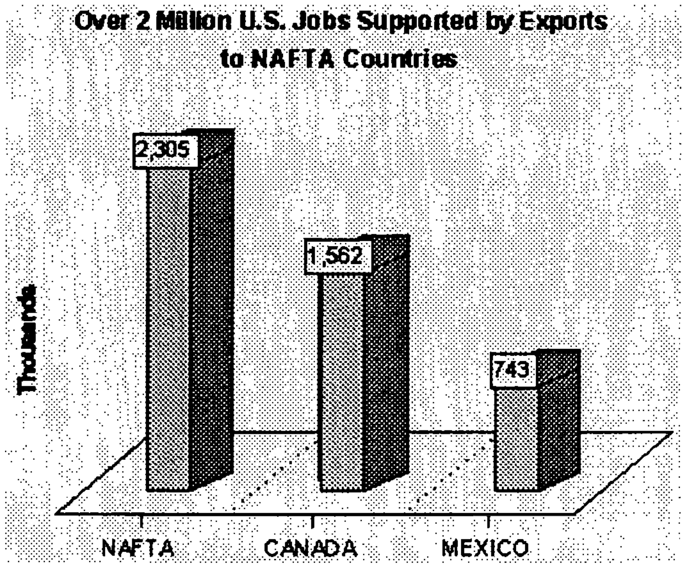
1NAFTA was passed into law in 1993. 1994 was the first of a multi-year phase in of the NAFTA agreement that will not be complete until 2008.

# NAFTA and U.S. Jobs

**NAFTA has played a vital role in helping trade expansion strengthen the U.S. economy**. NAFTA has created higher wage jobs for American workers by expanding access for U.S. goods and services in the markets of two of our top three trading partners -- Canada and Mexico --markets that have been traditionally less accessible than the U.S. market. During NAFTA's first two years, U.S. goods exports to our NAFTA partners (Mexico and Canada) were up by 22 percent, or nearly $31 billion (to $173 billion), despite the decline in goods exports to Mexico in 1995 due to the peso crisis and related severe recession. U.S. goods exports 1993-95 to Canada were up by 26%, while U.S. goods exports to Mexico were up by 11%.

**Moreover, the growth in U.S. goods exports to our NAFTA partners accelerated in 1996**. U.S. goods exports to our NAFTA partners were up by 34 percent in 1996 over the same period of 1993. U.S. goods exports were up by 33% to Canada and by nearly 37% to Mexico. Jobs supported by U.S. goods exports to NAFTA were up by an estimated 311 thousand from 1993 (pre-NAFTA) to 2.3 million in 1996.




Although the U.S. bilateral goods trade balance with Mexico shifted from a surplus of $1.4 billion to a deficit of $15.4 billion in 1995, **NAFTA did not cause this trade deficit, nor does a deficit necessarily mean an overall loss of U.S. jobs.** The movement toward a trade deficit in 1995 was not caused by NAFTA implementation. In NAFTA's first two years, Mexico, whose pre-NAFTA tariff level was two and one-half times higher than the U.S. tariff level, cut barriers to U.S. exports to a much greater extent than was the case for the United States.

The trade deficit arose largely from two factors. The U.S. economy in 1995 continued its trend of healthy economic growth, increasing production, exports and imports. Mexico, however, experienced its worst economic downturn in modern history in 1995. Production fell by nearly 7 percent, making Mexico's recession about three times worse than the last U.S. recession in 1991-1992. Mexico's imports fell and the sharp decline in its domestic spending power made more of its remaining production available for export. The U.S. economy was able to achieve a net increase in employment of 1.7 million jobs (a 1.5% increase), while in Mexico employment fell by 1.6 million (a 7% decline). The causes of the trade balance shift in 1995 were clearly not factors that favored employment in Mexico relative to the United States.

**The Mexican recession in 1995 had its origins in decisions made by the Mexican government on exchange-rate policy in the 1980s, long before NAFTA was even envisioned**. The sharp decline of the peso, the movement of investment in securities and other financial instruments out of Mexico, and the rise in Mexican interest rates were largely the cause of the 1995 recession. NAFTA, by requiring Mexico both to continue opening its markets to U.S. exports and to abide byagreed rules with respect to its exports to the United States, worked to minimize any negative repercussions of Mexico's peso crisis and economic downturn on U.S. workers.

**Trade deficits, by themselves, do not necessarily cost U.S. jobs.** The facts do not support the view that trade surpluses are pro-job policies and trade deficits depress the overall demand for labor. In the last 40 years, U.S. employment generally grew more and the unemployment rate was lower when the U.S. trade balance was worsening. This should not be surprising; trade deficits and employment both tend to rise when the economy is growing rapidly and consumers and businesses increase their spending. For example, the U.S. current account (the broadest measure of trade) was nearly in balance in 1991, during the last major U.S. recession, yet the unemployment rate peaked at well over 7% in that year. Since 1992, the U.S. economy recovered earlier and has grown faster than those of many of our major trade partners. The relative strength of U.S. growth contributed to the current account deficit expanding to $152.9 billion in 1995; however, by the end of 1995, the unemployment rate was down to 5.6% and roughly eight million net new jobs had been created in the U.S. economy in just three years.

In the case of Mexico, its dramatic recession in 1995 sharply improved its trade balance even as domestic employment fell by 1.6 million; in the United States, a shift toward sustainable rates of long-term growth, resulted in the net addition of 1.7 million U.S. jobs, even as the deficit with Mexico deteriorated (for the world as a whole the U.S. deficit stabilized in 1995).

It is very difficult to estimate the job displacement effect of imports. Accordingly, the mainstream economic community has not been able develop a broadly agreed methodology to determine the displacement impact of imports. Certainly, some imports have a job-displacement effect; however, not all imports displace U.S. domestic production or jobs. For example, imports of materials in short supply, or those not produced in the United States, do not have a one-for-one job displacement effect. U.S. imports from Mexico of petroleum ($5.7 billion in 1995) and coffee ($600 million in 1995), if they had not occurred would have largely resulted in either reduced supply and higher prices in the United States, or in higher U.S. imports from third countries. Similarly, other imports by providing a competitive input into a production process are complementary to U.S. production and support, rather than displace U.S. jobs.

**Ultimately, the reasons the United States entered the NAFTA with Mexico are for the benefits to U.S. workers.** NAFTA greatly expands the opportunities of U.S. export industries in Mexico and thus for the expansion of higher wage jobs in the United States. Our export industries are among our most productive and dynamic of all U.S. industries. The jobs they support pay wages that are 13% to 16% higher than the U.S. national average wage. Finally, by removing trade impediments throughout the North American continent, investment in the United States is made more attractive. Higher investment at home is an important element in supporting growth of U.S. output, higher U.S. labor productivity, competitiveness, and higher U.S. labor compensation.

For those who might lose employment because of trade with Mexico and Canada, the Congress passed specific legislation worker retraining and unemployment benefits and adjustment assistance. The law was written in such a way to provide these benefits to Americans losing jobs because of increased imports from Canada or Mexico (or plant displacement to those countries ), whether the import increase (or plant displacement) was related to some provision of the NAFTA or whether itoccurred for reasons wholly unrelated to any provision of the NAFTA. Under this program, a cumulative figure of 88,602 U.S. workers were certified in the 33 months following January 1994. Of these, 51,092 have been certified with respect to imports from Mexico (or plant displacement to Mexico).

The Department of Labor reports that these certifications are an estimate and not the actual number of people that may have been affected by NAFTA or increased trade with NAFTA countries. Additionally, through September 1996, only 5,300 individuals have actually taken advantage of NAFTA transitional adjustment assistance. The reasons for this vary on a case by case basis.

A conservative estimate of involuntary job displacement for the U.S. economy as a whole during this same 33-month period between January 1994 and September 1996 is about 8.6 million workers. This is a figure nearly 100 times greater than the number of U.S. workers certified with respect to imports from NAFTA countries and nearly 170 times greater than those workers certified with respect to imports from Mexico. During the same time period, job growth in the United States was so strong that all job displacement was offset (including some of whom were certified), and net employment increased by eight million jobs in the United States. The median number of weeks spent by workers looking for work during 1995 was 13.7 weeks. The adjustment assistance furnished to those workers certified with respect to imports from NAFTA countries provides an additional degree of support in making the job transition faced by millions of Americans each year.

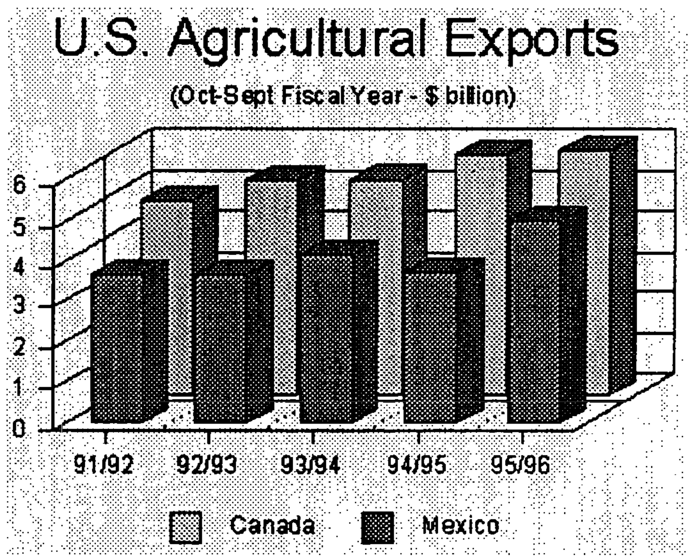
*2/21/97*

USTR

# NAFTA and Agriculture Trade

**The United States is one of the world's most competitive agricultural producers and exporters.** The NAFTA continues to improve U.S. exporters' access to significant new markets in Canada and Mexico for their products. Canada and Mexico are now the second and third largest markets in the world for U.S. agricultural products.

- **Agricultural exports to our NAFTA partners increased by 14.2 percent in FY1996 (Oct-Sept), reaching record levels.** Despite a decline in exports to Mexico during FY1995, exports roared back and were up almost 35 percent for FY1996. Export growth to Canada was more modest but continued the consistent growth seen since the implementation of the original Canada-U.S. Free Trade Agreement in 1989.




- **In FY1996, agricultural exports to Mexico reached a record of $5 billion.** Increased exports of bulk agricultural products such as coarse grains, soybeans and wheat led the way. Exports of planting seeds and hides and skins were also up over 50 percent this year.
- **Export growth to Mexico is forecast to continue with projections for FY 1997 reaching $5.1 billion.** Lower expected prices for grains may decrease the export value for those products, but live animal exports are expected to increase as Mexico starts rebuilding its herds following a severe drought. An improved economic situation should also lead to increased consumer demand for meats, horticultural products and other processed foods.
- **The U.S. continues to be the dominant and growing supplier of agricultural products to Mexico, providing almost 75 percent of its agricultural imports.** This is due, in part, to the price advantage U.S. products now enjoy in Mexico compared with other Mexican trading partners that do not have the preferential access the NAFTA provides our exporters.
- **The fourth round of tariff cuts with Mexico went into effect on January 1, 1997.** This round increased by three percent the quantity of key U.S. commodities, including corn, dried beans, poultry, animal fats, barley, eggs, and potatoes, eligible for duty-free access under the NAFTA tariff-rate quotas.
- **U.S. imports of agricultural products from Mexico in FY1996 were slightly below the record set in FY 1995 of $3.7 billion.** Fresh vegetable shipments continue to dominate agricultural imports from Mexico accounting for almost a third of U.S. imports.
- **U.S. agricultural exports to Canada continue to grow, and reached nearly $6 billion in FY1996.** In FY1996 exports of bulk agricultural items, intermediate agricultural goods and consumer oriented agricultural goods to Canada were all at record levels for the second year in a row. Exports of processed foods dominate our trade with Canada, and continued strong growth in the export of snack foods, processed fruits and vegetables and fruit and vegetable juices lead the way.
- **Exports to Canada are forecast to increase in FY1997 to reach $6.1 billion**, mainly due to increases in horticultural exports and some increases in red meat exports.
- **U.S. imports of agricultural goods from Canada increased in FY1996 to $6.4 billion.** The nearly 20 percent increase is due to the relative strength of the U.S. economy and demand and the relative weakness of the Canadian dollar. Increased imports of live animals and red meats accounted for the largest changes.
- **The tariff reductions set out in the Canada-U.S. Free Trade Agreement will be completed on January 1, 1998.** With the exception of Canadian tariffs on dairy, poultry, eggs, margarine and barely, and U.S. products subject to tariff-rate quotas, which include dairy products, sugar and sugar products and peanut butter, all agricultural trade between the United States and Canada will be duty free beginning in 1998.

*1/23/97*

# NAFTA and Sovereignty

**The NAFTA is a comprehensive and reciprocal trade agreement that the U.S. needs to continue opening markets in our first and third largest trading partners and prosper in the North American and global economies.** The NAFTA corrects the fundamental imbalance that existed where the U.S. market was largely open and accessible and our neighbors' markets were closed. Reciprocal and comprehensive trade agreements such as the NAFTA help the broadest range of U.S. producers and workers tap into a world market in which 95 percent of the world's consumers live outside the U.S.

**The economic history of the U.S. has been one of progressive elimination of barriers that impede our economic expansion.** It started with the constitutional requirement to eliminate the barriers that blocked commerce between the states. That domestic effort to knock down barriers progressed onto the world stage in earnest following World War II with the development of the General Agreement on Tariffs and Trade (GATT). To continue to succeed, the U.S. must eliminate barriers to commerce in the global economy by using the rules now available in the World Trade Organization (WTO), the NAFTA, and other trade agreements, and by emphasizing reciprocity in our trade negotiations. Trade agreements are the central tools of the U.S. Government to help the private sector gain entrance into closed markets and compete on a level playing field with their competitors.

**The U.S. is the most competitive and productive large economy in the world according to prestigious independent institutions like the World Economic Forum and the International Institute for Management Development.** Because of this competitiveness, the U.S. will do even better when other economies are as open as the U.S. and barriers are eliminated.

Negotiating binding trade obligations for reciprocal market openness does not entail a loss of our sovereign decision-making in important areas such as public health and safety standards, environmental protection, or foreign policy. **The NAFTA does not permit Canada and Mexico to "intervene in" or "direct" U.S. legislative or regulatory processes through trade agreements:**

- the NAFTA puts in place rules that were supported by a strong bipartisan majority of the Congress;
- the NAFTA does not prohibit the U.S. from passing and vigorously enforcing its own laws, or from setting its own environmental or health standards, and a NAFTA panel cannot autonomously change such standards. Only the U.S. Congress has the authority to change U.S. law, and only U.S. regulatory bodies, such as the Food and Drug Administration, etc., have the authority to issue health, safety, environmental and consumer protection regulations;
- the NAFTA does not require the U.S. to adopt lower international food and safety standards; it permits the U.S. to continue to reject food and other imports that the U.S. considers to be unsafe; and it permits states and the federal government to maintain andimpose even stricter food and safety standards than is currently the case;
- No substantive change in U.S. rights and obligations under the NAFTA will apply unless the U.S. agrees to it;
- U.S. interests are enhanced because the dispute settlement system permits the U.S. to enforce rights under the agreements more effectively, open previously closed markets, and at the same time preserve U.S. trade laws; and
- The U.S. will continue to be able to use:
  - Section 301 of the 1974 Trade Act, as amended, to address unfair, or unreasonable, barriers to U.S. commerce; and
  - antidumping and countervailing duty laws to address foreign unfair export practices that affect the U.S. market adversely.

*1/23/97*

# NAFTA and the Environment

**The North American Agreement on Environmental Cooperation (NAAEC) promotes sustainable development through mutually supportive environmental and economic policies.** The Commission for Environmental Cooperation (CEC) was created under the NAAEC to protect, conserve, and improve the environment through increased cooperation among the Parties and increased public participation.

**In the first two years of operation, the CEC has begun work on an impressive list of environmental projects under its cooperative work program.** The NAFTA parties are seeking solutions to a number of issues of trilateral significance for the first time, focusing initially on five major themes: Environmental Conservation; Protecting Human Health and Environment; Enforcement Cooperation and Law; Environment Trade and Economy; and Information and Public Outreach. The proposed 1997 Annual Program and Budget continues to look at these five major themes and has focussed the cooperative efforts into seventeen key intiatives.

**Under the theme of Environmental Conservation**, the NAFTA parties have encouraged the CEC Secretariat, located in Montreal, to coordinate non-governmental involvement on the conservation of North American birds by identifying areas important to the long-term viability of naturally occurring bird populations (Important Bird Areas or IBAs) and developing a conservation strategy for each site. The governments will cooperate on a separate initiative to protect the birds of North America by developing a recommended conservation strategy.

With respect to marine ecosystems, the CEC is coordinating efforts among the parties for the first regional implementation of the Global Program of Action for the Protection of the Marine Environment from Land Based Activities signed by 101 countries in Washington in November 1995, as well as regional implementation of the International Coral Reef Initiative. A presentation of the North American experience in regional implementation will be made at the UNEP Governing Council meeting in January 1997. Other Environmental Conservation highlights in the CEC include the development of a North American Biodiversity Information Network and cooperation for the conservation of the Monarch butterfly.

**Under the theme of Protection of Human Health and Environment**, an unprecedented trilateral discussion has taken place among the NAFTA parties aimed at creating regional action plans for the sound management or phase-out of four toxic substances: PCBs, DDT, mercury and chlordane. This process has educated all three countries about the mechanisms and technologies their neighbors use to understand and manage these substances, which saves time and resources in developing these mechanisms individually. The CEC Council will review the regional action plans in early 1997 for approval. The Parties are also developing a criteria document to assist in developing a new short list of substances to be subject to future action plans.

The CEC also facilitated the creation of the North American Pollutant Release Inventory, the regional equivalent of the U.S. Toxic Release Inventory. This activity involves developing a methodology for making pollutant release and transfer register (PRTR) data comparable, compatible, and accessible to the public. The United States and Canada are providing support toMexican efforts to establish a domestic PRTR and all three will publish the first reports on North American Pollutant Release Inventory information from 1994 and 1995 data. Other Human Health highlights include the development of a cooperative long term air quality monitoring, modeling, and assessment program in North America, a greenhouse gas trading study, as well as recommendations on transboundary environmental impact assessment procedures for the countries of North America.

The CEC is required to publish an Annual Report, which addresses, among other things, actions taken by each Party to meet it's obligations under the NAAEC. The Parties will highlight environmental enforcement activities in a thirty page section of the 1996 Annual Report. **Cooperation on enforcement issues has improved through the creation of the CEC North American Working Group on Environmental Enforcement and Compliance Cooperation**, which cooperates on activities such as technical assistance, cataloguing training courses and enforcement officials, exploring alternative approaches to voluntary compliance, and improving the tracking of hazardous waste across borders.

In 1997, the Council has agreed to develop principles to guide the development of a new generation of environmental regulatory and other management systems, in recognition of the need for continuous improvement of environmental protection and public health. The CEC will develop such principles as a standard that the public will be able to use to evaluate new laws, rules and regulations.

In 1996, the Council created a pilot fund for pollution prevention projects for small and medium enterprises. The CEC will explore options for extending this fund to the United States and Canada in 1997. The Council also created a Technology Clearinghouse to assist potential users of environmental technology in finding the technology necessary to help them comply with relevant environmental laws and regulations or to improve their production efficiency while maintaining or improving their competitiveness.

**The Information and Public Outreach activities of the CEC have been very successful**, although all arms of the Commission (Council, Secretariat, and Joint Public Advisory Committee (JPAC)) recognize the need to continue to grow in this area. The CEC's first effort was to establish an Internet Homepage (www.cec.org) so that it could publicize its actions and developments. For public use and easy access, CEC staff put the environmental laws from the three countries on-line in all three NAFTA languages. A CEC resource center was established in Mexico City, to make information more accessible to those NAFTA citizens living furthest from the CEC headquarters in Montreal.

As the CEC completes projects, it is adding these project results to the on-line service. The JPAC is hosting three public meetings each year on specific topics of concern to the Council: in 1997 they will address the long range transport of air pollutants, voluntary compliance with enviornmental laws, and environmental networking between North American communities. The public has played a key role in each of the cooperative work program projects. The United States has established both a National and Government Advisory Committee made up of business, environmental organizations, and academics to assist its delegation in making wise decisionswithin the Commission.

Finally, the CEC has undertaken a pathbreaking and complex study of the effects of NAFTA trade on the environment under the Environment, Trade, and Economy theme. The NAAEC calls for a continued consideration of the "environmental effects of NAFTA" in Article 10.6(d). The Administration is committed to reducing barriers to trade and to understanding how greater market access and higher levels of environmental performance can be pursued as complimentary and synergistic goals. To this end, the United States has supported independent CEC work to design and implement an analytical framework to identify and assess the effects of NAFTA on the environment. The CEC expects the study to provide a basis for further cooperation among the Parties.

**Other developments include the establishment of the North American Fund for Environmental Cooperation (NAFEC),** which is a C$2 million fund for community based grants intended to engage the energy and imagination of the people of North America in achieving the goals of the NAAEC. The third call for proposals will be released in February 1997.

Also, despite the concern among the public about the perceived lack of enforcement of domestic environmental laws in the NAFTA countries, so far only six submissions from the public have been received by the Secretariat under the process estblished by Article 14 of the NAAEC to address that concern. Currently, there are three submissions, one against each of the NAFTA Parties, still under consideration by the Secretariat. In August 1996, the CEC Council decided to instruct the Secretariat to prepare a factual record regarding the environmental impact assessment done on a public harbor terminal in Cozumel, Mexico.

A separate complaint from members of the public concerning massive migratory bird deaths at the Silva Reservoir in Mexico resulted in the preparation of a report by the Secretariat under Article 13 of the NAAEC. Article 13 enables the Secretariat to prepare a report on any matter within the scope of the Commission's annual work program or any other cooperative, non-enforcement function of the NAAEC so long as the Council does not object to its preparation within a specified period of time. The NAFTA governments have negotiated a resolution to the Silva Reservoir situation which has created unprecedented scientific cooperation on this problem by bringing scientists together in a depoliticized environment. This resolution allowed the CEC to fulfill one of its principle missions -- to respond to a national environmental problem that has international consequences, while remaining sensitive to local priorities and to the possibility of creating effective regional models.

**With respect to BECC and NADBank, BECC has certified twelve projects in just two years of existence, six in each country; NADBank has approved financing for four of these projects**. As a result of extensive outreach and technical-assistance efforts, several dozen more potential projects have applied for certification. BECC was awarded a grant for $10 million by U.S. EPA to identify, develop, and assist water-related projects in both countries. NADBank has established a program of its own to improve the creditworthiness of border-area utilities and municipalities.

**The central strategy of the comprehensive and unprecedented Border XXI Program** emphasizes public involvement, decentralization of environmental decision-making through state and local capacity building, and improved communication and cooperation among federal, state, and local governments. The federal governments of both countries acknowledged the importance of cooperative efforts and are committed to working with their state and local counterparts and with residents of the border region to further define and realize the vision of sustainable development underlying Border XXI. The cooperative effort includes projects pertaining to the entire border and specific elements pertaining to California - Baja California, Arizona - Sonora, New Mexico-Texas-Chihuahua, Texas-Coahuila-Nuevo Leon, and Texas-Tamaulipas.

**The environmental institutions created by the NAFTA are providing for the first time the bilateral and trilateral tools to address a variety of North American environmental issues, including in the U.S.-Mexico border region.** The NAAEC commits NAFTA members to ensure that their laws provide for high levels of environmental protection and that environmental laws are effectively enforced. The NAAEC includes enforcement provisions with sanctions as a last resort if a country fails to uphold its commitment to enforce its environmental laws. The BECC and NADBank together constitute the institutions necessary to identify worthwhile projects and leverage the financing that is critical to environmental clean up along the border.

**While NAAEC encourages environmental cooperation to resolve outstanding concerns, it also protects the rights of the NAFTA members to establish and enforce their own environmental laws.** Nothing in the NAAEC can require the United States to change its environmental laws.

**The passage of NAFTA, the establishment of the BECC, NADBank, and the CEC demonstrates the commitment that all three nations have made to improve the environment in North America.** U.S. environmental technology firms are in an excellent position to provide goods and services to meet environmental needs of our NAFTA partners.

*1/23/97*

USTR

Webmaster @ USTR - 28 January 1997

# NAFTA and Labor Rights

**The North American Agreement on Labor Cooperation (NAALC) is an unprecedented and balanced approach to ensuring high levels of worker rights protection. The objectives of the NAALC include:** improving working conditions and living standards in each party's territory; promoting basic labor law principles; encouraging cooperation to promote innovation and rising levels of productivity and quality; pursuing cooperative labor-related activities; and promoting compliance with, and effective enforcement by each party of, its "labor law" and fostering transparency in the administration of labor laws. The agreement does not rewrite any country's labor laws: there was no need to do so since Mexico and Canada have generally sound labor laws.

**The implementation of the NAALC is carried out by a Commission, which includes a Ministerial Council and a Secretariat.** The Commission is assisted by the National Administrative Office (NAO) of each Party to the NAALC. The Council is comprised of the Ministers of Labor of each Party, which in the case of the United States is the Secretary of Labor. The Council is the governing body of the Commission and oversees, and directs, NAALC implementation. The Secretariat, located in Dallas, Texas, is the administrative body of the Commission and assists the Council in exercising its functions, including the preparation of reports at the request of the Council on topics relevant to the implementation of the NAALC. The NAOs serve as the contact point for the government agencies of the Parties, the NAOs of the Parties, and the Secretariat. Each Party also has a National Advisory Committee made up of the Public, labor and business representatives.

**The "bright spotlight" of public, and international, scrutiny of relevant labor practices is, in effect, a function of the accord.** Under the agreement, citizens of any NAFTA signatory can request their government to review labor practices in one of its NAFTA partners. Review results are made public. Governments also may request consultations at the Cabinet level and a detailed examination of any incident or labor practice in another NAFTA country. For example, in one case which involved the right of union registration at a Mexican electronics plant:

> The U.S. Secretary of Labor and his Mexican counterpart entered into an agreement, with an action plan, to address union registration in Mexico. Under the agreed plan, officials from the Mexican Labor Secretariat met with the workers attempting to register a union at the electronics plant in question to explain to them their rights under Mexican law regarding union registration. Mexican officials also met with the plant management and local government officials who handled the union registration petition. Mexico agreed to commission a study by independent experts to examine the issue of union registration in Mexico and to prepare a public report. Mexico agreed to a series of public seminars to be held jointly with Mexican, U.S., and Canadian officials, academics, management officials, and labor representatives to discuss the issue of union registration and other labor law issues raised in the case. Seminars were held in Mexico City, San Antonio, and Monterrey.

The U.S. National Administrative Office (U.S. NAO) has received six submissions to date and twoof the cases are currently pending. These cases titled Submission 9601 & 9602 respectively, address freedom of association issues in Mexico.

In Submission 9601, the NAO will issue a public report by January 27, 1997 concerning a submission made by Human Rights Watch/Americas, the International Labor Rights Fund, and the Asociacion Nacional de Abogados Democraticos (National Association of Democratic Lawyers). The submission involves the representation of employees at the Mexican Ministry of the Environment, Natural Resources, and Fishing. The NAO Report will include an examination of the relevant allegations and findings on whether Mexico has met its obligations under the NAALC.

In Submission 9602, the NAO will issue a public report by June 1997 concerning issues raised by the Communications Workers of America, the Union of Telephone Workers of Mexico, and the Federation of Unions of Goods and Services Companies of Mexico. The issues concern freedom of association and the right to organize issues.

**The NAALC protects the right of the NAFTA Parties to establish and enforce their own labor laws.** Nothing in the agreement requires the U.S. to change its laws or the enforcement of its laws. But the agreement is a "two-way street". Mexico and Canada may request consultations and an examination of incidents and labor practices in the U.S. Indeed, Mexico has done so on one occasion involving a California telecommunications facility that closed on the eve of a union representation election. The matter was addressed through consultations with full respect for proceedings under domestic law before the National Labor Relations Board (NLRB). The agreement's balanced approach is the right approach that serves the interests of all three NAFTA countries.

**The positive effect of a trilateral consultative process leading to greater understanding of how one country is addressing an issue, and the ability of the consultation process to persuade a NAFTA party to improve enforcement, should not be underestimated.** Trinational cooperative activities conducted under the agreement also promote transparency (i.e., a clear understanding) regarding labor law and practice on issues ranging from occupational safety and health to workplace equality.

Over the past three years, an extensive program of trinational cooperative activities has been under taken by the National Administrative Offices of Canada, Mexico and the U.S. The purpose of these activities is to promote administration of labor laws and promote greater understanding of each country's laws, policies and practices and to facilitate the exchange of information related to labor law issues.

The cooperative activities work program is carried out through a series of government-to-government meetings, seminars and public conferences. Some examples of these activities are:

- ☐ The U.S. NAO has sponsored two trinational study tours, one in construction and the other in the petrochemical industry, in conjunction with the Department of Labor's OSHA division and in cooperation with the National Safety Congress. The program fostered an exchange of best practices on ways to reduce worker fatalities and injuries in these industries.
- ☐ The three NAFTA countries have also undertaken a series of seminars and conferences on labor law and worker rights. Two of the government-to-government seminars conducted in this area were designed to address issues of industrial relations that had been raised in the U.S. NAO submissions. The goal was to begin an open discussion between the countries and to exchange information on the application and implementation of each country's labor laws in this area and find ways to resolve issues before reaching the dispute settlement process.
- ☐ The NAALC countries will be hosting, in 1997, a conference on "Child and Youth Labor in North America." The conference will examine innovations that seek to eliminate inappropriate participation of children in the workplace. The conference will explore ways that the NAFTA countries can improve the lives of children and youth who are legally in the workplace by reducing risk to health and safety and by safeguarding educational opportunities.

Monetary sanctions and denial of trade benefits are available to address the trade effects of a persistent pattern of failure by another NAFTA party to enforce selected labor laws, should evaluations by experts and consultations not lead to solution. The structure of the accord also prevents the Parties from attempting to use the NAALC to impose sanctions for anything other than the carefully prescribed reasons set forth in the accord, and none of the Parties have attempted to use the NAALC to raise barriers to commerce or impinge the broader objectives of NAFTA.

*1/23/97*

USTR

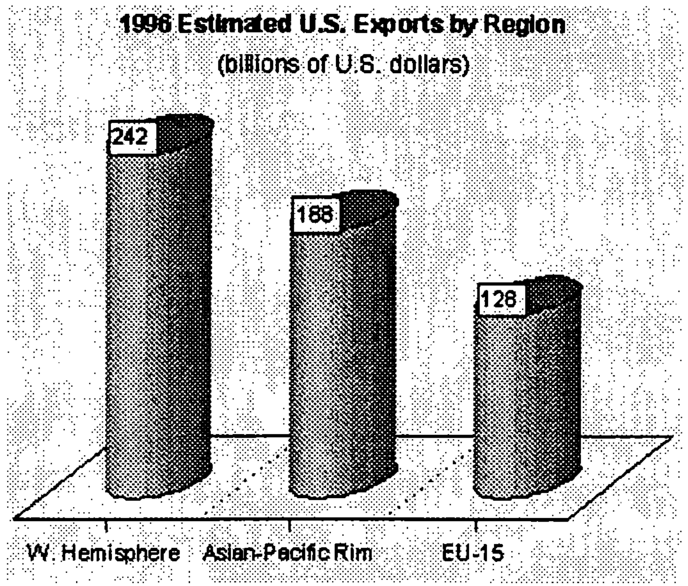
Webmaster @ USTR - 28 January 1997

# NAFTA and the Western Hemisphere

**The NAFTA is the U.S. beginning for opening the dynamic Latin American market and for leveling this hemisphere's trade playing field to benefit U.S. exports of goods and services.** The rules of the NAFTA go far beyond the mere elimination of tariffs and other restrictions at borders. For example, they are designed to: open government procurement markets - a key to gaining access to large infrastructure projects; ensure standards regarding product certification and other related norms for selling are not disguised barriers to preclude import competition; improve the protection of intellectual property rights (i.e., copyrights, trademarks, patents, etc.); and ensure access on equitable terms for foreign and domestic investors. In short, the NAFTA is indicative of the kinds of rules that can be a most effective tool in prying open markets in virtually all respects and ensuring competitive U.S. industries and workers get the best opportunity available to compete against our global competitors in these markets. The NAFTA rules provide a standard of market openness and reciprocal fairness that should become the minimum norm for trade relations within the Western Hemisphere. Although Chile's dynamic economy is viewed as one of the most, if not the most, open in Latin America, Chile's accession to the NAFTA will require significant steps be taken to further open its economic and trade regime and harmonize its rules with those of the United States, Canada and Mexico.

Tariff barriers in Latin America, as much as they have been reduced in recent years, are still on average four times higher than the average U.S. tariff. The Uruguay Round resulted in a reduction of tariffs, and a limit being put on how high tariffs can be raised. But, as was the case with Mexico, the Uruguay Round does not preclude many Latin American countries from raising tariffs significantly in some cases. Only the negotiation of a comprehensive trade agreement will accomplish that objective. Furthermore, virtually no investment regime is as open as the U.S. regime, no country protects intellectual property rights as effectively as the United States, and access by services providers to the U.S. market is greater than any country in Latin America and the Caribbean Basin. Reciprocity would require these countries to open their regimes to a significant degree, thus creating a more level trade playing field for competitive U.S. producers and workers.

**The Western Hemisphere accounted for 39 percent of U.S. goods exports in1996. Not only are Canada and Mexico the first and third largest U.S. trading partners, but the rest of Latin America and the Caribbean Basin has been one of the fastest growing U.S. export market in recent years. It was the only major region with which the U.S. recorded a trade surplus in 1995 and this continued in 1996.** It is not broadly recognized that this resource-rich region has transformed itself over the last decade from largely closed economies to market oriented democracies. This major re-orientation is having a significant impact on the trade situation and is generating substantialcommercial opportunities for the U.S.




**Whereas U.S. goods exports to the world increased by 57 percent in the period 1990-96, U.S. exports to Latin America and the Caribbean Basin (excluding Mexico) increased by 110 percent.** Latin America and the Caribbean Basin has a population estimated at 450 million, of which 300 million are consumers above the official poverty line. The total gross domestic product (GDP) of Latin America and the Caribbean Basin was $1.5 trillion in 1995, with real growth expected to average 5 percent through the year 2000. Latin American intra-regional trade is exploding, more than doubling from 1990 to 1995 from $41 billion to $88 billion. The United States has traditionally been very competitive, in most countries having supplied 40 percent or more of imports. There is no other region of the world where the United States is so naturally competitively positioned. For example, the United States exported more to Chile in 1995 than it did to India, Indonesia or Russia.

**But the U.S. is not the only country which recognizes the region's potential. Competitors from Europe and Asia are actively engaging the region and seeking to change the trade rules of the game to their advantage.** The European Union (EU) has agreed with Argentina, Brazil, Paraguay and Uruguay, the countries of the Southern Common Market (or MERCOSUR in Spanish) to negotiate a reciprocal trade agreement. Similarly, the EU and Chile expect to conclude a reciprocal trade agreement. Mexico and the EU have initiated talks to pursue a comprehensive trade agreement. The largest trading partner of the MERCOSUR is the EU.

Similarly, Latin American trade with Asia and the Pacific is booming. In 1995, China's second fastest export market was Latin America. Chile's largest export market is Japan. Senior Chinese officials have visited Latin America in the past year an unprecedented number of times targeting the region for its new commercial and strategic value and to blunt U.S. commercial power. Japan and Korea and other Asian competitors have also engaged in the highest levels of diplomacy to encourage closer commercial ties and policies more conducive to their trade, investment and trade strategies. Latin America is responding to this effort with high level visits to Asia to foster closer ties and cooperation in global issues including trade. These efforts will have direct implications for the continued competitiveness of U.S. firms in the region. It would be unacceptable if U.S. competitors in Asia and Europe were to negotiate better access and treatment for their goods and services than the U.S. achieves.

**The region itself is very active with trade agreements**. For example, the MERCOSUR recently concluded a free trade area with Chile which will virtually eliminate tariffs and quantitative restrictions. MERCOSUR is looking to expand its associate agreements to Bolivia and other South American countries. Mexico has proposed a reciprocal trade agreement with MERCOSUR, and is working on agreements with Central America and Ecuador and has initiated talks to add disciplines to its agreement with Chile. Furthermore, it has agreements with Venezuela and Colombia (i.e., the G-3) and Costa Rica. Chile also has agreements with Venezuela, Colombia, Peru and is working on one with Bolivia and the Central AmericanCommon Market. Furthermore, Chile just concluded an "interim" agreement with Canada that is modeled on elements of the NAFTA, including the labor and environment accords.

Historically, the U.S., even with its strong trade ties, has not influenced the content of these trade agreements. Latin America has a decades deep tradition in the trade and integration game. While the content of the newer agreements being negotiated is more comprehensive and effective in opening markets than was the case in the past, none of the agreements negotiated are as comprehensive as the NAFTA. The NAFTA serves as the U.S. hemispheric benchmark for the rules in trade agreements. **An open market in the hemisphere that reflects at least the rules of the NAFTA and its vigor in opening markets would level the playing field helping to ensure U.S. industries and workers the best opportunity to compete against aggressive global competitors in this dynamic and vast market.**

*2/21/97*

USTR

Webmaster @ USTR - 21 February 1997

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

20-May-1997 05:23pm

TO: (See Below)

FROM: Darby E. Stott

SUBJECT: Statement re: World Trade Week

Message Creation Date was at 20-MAY-1997 15:27:00

THE WHITE HOUSE

Office of the Press Secretary

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For Immediate Release May 20, 1997

WORLD TRADE WEEK, 1997

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BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

Two statistics sum up both the challenge and the promise of today's dynamic global economy: 95 percent of the world's consumers live outside the United States, and U.S. exports generated more than $830 billion in sales in 1996. The theme of this year's World Trade Week, "Make Locally, Sell Globally," exhorts American businesses to take advantage of the enormous commercial potential of the international marketplace, and we are poised to do so.

Over the past 4 years, trade has spurred more than a quarter of our overall domestic economic growth. During this period, the United States under the leadership of the Office of the U.S. Trade Representative signed more than 200 new trade agreements and is once again the world's leading exporter. In recent months, we have concluded historic agreements in the World Trade Organization that opened up the world telecommuni-cations services market to U.S. firms. We also have negotiated a pact that will eliminate tariffs on information technology products by the year 2000. Together, these agreements offer American business better access to markets representing more than $1 trillion in goods and services and are models for further market-opening initiatives.

The North American Free Trade Agreement (NAFTA) has not only increased trade with our member partners to a level of $425 billion annually, but also has provided greater stability to the global economy. We are committed to building on this success by achieving a Free Trade Area of the Americas, and we look toward a compre-hensive trade agreement with Chile as the next concrete step in this direction.

Selling globally also requires vigorous trade enforcement efforts, such as those we initiated recently by improving the protection of intellectual property rights in China and some 20 other countries around the world. Our ongoing efforts to eliminate trade barriers in Asia have already paid dividends -- for example, U.S. exports to Japan have grown by more than 40 percent since 1993. We will also continue to strictly enforce existing trade laws to ensure that imported goods in U.S. markets do not enjoy an unfair advantage over those produced by U.S. companies and workers.

We are committed to helping all U.S. businesses continue to succeed -- not only by opening markets, but also by assisting U.S. exporters. My Administration, through the efforts of the Trade Promotion Coordinating Committee, has developed a National Export Strategy to help small- and medium-size companies sell globally to realize their export potential. Our nationwide network of U.S. Export Assistance Centers combines under one roof the services of the Department of Commerce, the Small Business Administration, the U.S. Export-Import Bank, and other agencies to improve business access to trade information and financing. Over the past 4 years, this network has more than doubled the amount of export sales it facilitates. Our finance agencies, the U.S. Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency, also help American businesses compete on a level playing field in this increasingly competitive world economy.

We can be proud of this record of achievement, but we must build on it. Fair trade and open markets create stable economies in which democracy can take root and flourish. The United States alone has the legacy, the resources, and the responsibility to lead the world in this endeavor, and we must continue to do so.

As we observe World Trade Week, 1997, I am confident that, working together, we can sustain America's leadership in the global economy, generate millions of new jobs, and improve the quality of life for all our people.

NOW, THEREFORE, I, WILLIAM J. CLINTON, President of the United States of America, by virtue of the authority vested in me by the Constitution and laws of the United States, do hereby proclaim May 18 through May 24, 1997, as World Trade Week. I invite the people of the United States to observe this week with ceremonies, activities, and programs that celebrate the potential of international trade.

IN WITNESS WHEREOF, I have hereunto set my hand this nineteenth day of May, in the year of our Lord nineteen hundred and ninety-seven, and of the Independence of the United States of America the two hundred and twenty-first.

WILLIAM J. CLINTON

# # #

Distribution:

investments.

As a result, Romania began its economic transition with a large but obsolete capital stock. Inevitably, the years following 1989 saw the scrapping of old plants. Many investments begun before the collapse of communism were left unfinished.

This "constructive destruction" phase of Romania's transition is over, however, and the investment growth is now real, a healthy sign toward a market economy. Although the technological gap between Romania and the West remains large, imports of Western machinery and equipment have hastened the narrowing of differences. Evidence is mounting that the new investment has made the Romanian labor force more productive. In fact, productivity in Romania grew by 16% in 1995, faster than in other Eastern European nations.

Foreign Investment. The former regime tried to make Romania self-sufficient economically. Foreign investment in the economy was discouraged. Since the fall of communism, Romania has become far more integrated into the global economy.

As of June 1996, Romania's cumulative foreign investment since 1990 totaled $1.9 billion and is now at $2.47 billion as of the middle of last month. Encouraging though this is, such capital outlays pale in comparison to Western investment in neighboring countries. Relative to its GDP, Romania received less foreign investment than Hungary, the Czech Republic and the Slovak Republic. Poland, the most advanced economy of the group, has even started to repay its foreign debt.

All in all, in terms of direct foreign investment — arguably the best type of foreign inflow for economic growth, Romania lags behind all of her neighbors.

Recent Investment Developments. Germany, with $162 million invested, replaced Korea as the largest investor in Romania in 1996. Korea, Italy and the United States are the next largest sources of foreign investment, with $159 million, $147 million, and $134 million, respectively. About half ($901 million) of Romania's total foreign investment is from European Union nations.

Korea's stake consists of one investment, the largest in Romania. It is a joint venture between Korean car maker Daewoo and Oltcit, Romania's second largest automaker. Daewoo has obtained a 51% interest in Oltcit for $156 million. The Korean company plans to invest another $53 million in a shipyard, and to set up a bank, partly to offer Romanians car financing.

Our firm has represented one of the major U.S. automotive companies in exploring investment opportunities in the Romanian automotive industry at about the same time that the Koreans were looking at Oltcit. The U.S. company found Romania attractive, but not attractive enough, vis-a-vis other opportunities in the region and decided to pass.

Which brings me to another point about investment in Romania. With the region aggressively competing for foreign investment, Romania will need to offer conditions which are "better" than those of its neighbors to attract investment.

Privatization. Romania's first attempt at privatization in the early 1990s is generally considered to have been a failure because relatively few state owned enterprises were sold. The second round, begun in 1995, while complex, has been much more successful, and clearly, much has been accomplished.

Some 2,500 state companies, about 40% of the 6,000 enterprises slated for selloff, have been privatized. Of the 2,500 companies, over 1,000 firms were sold this year, most in the trade, tourism, construction, services, the textile and food industries, and in transport.

In a separate mass selloff launched last October, some 15 million adult Romanians were offered around 600 million shares, or stakes of up to 60%, in some 4,000 companies in exchange for coupons. Subscription under the mass selloff was put at around 90% when it ended in March of this year. The rest of at least 40% was earmarked for cash sales to local and foreign investors by the State Ownership Fund (SOF), the organization in charge of those sales. Romania is opening an over-the-counter (OTC) institution that will enable trading in these freely-gained company shares.

We are now in discussions with a leading investment bank on how to facilitate the realization of values on the OTC market in Bucharest.

Since 1993, the part of Romanian GDP represented by the private sector has increased from 32% to more than 45%. To further facilitate this trend toward private ownership, the government has even set up a web site through which both Romanians and foreigners may obtain forms for the purchase of state property.

Investment opportunities in Romania, by industry, are in agriculture, telecommunications, road construction, the petroleum industry, food processing, refrigeration and, given the advantageous labor rate structure, labor-intensive manufacturing.

Although the privatization rate will likely accelerate after this fall's elections, the rationalization of Romania's industries — in particular that of the large enterprises — will take time.

In net, while Hungary had a significant head start in 1990 and has continued to outpace Romania, Romania is now on a decent growth path, though still far behind on the economic development curve. Thank you.

# Free Trade Throughout The Americas

## HIGH HURDLES BUT HIGH HOPES

Address by JOSEPH NOLAN, *Former Visiting Instructor, Economics, Flagler College, Former Vice President, Chase Manhattan Bank, and Monsanto Chemical Corporation*

*Delivered at the Flagler Forum, St. Augustine, Florida, November 7, 1996*

Ask economists which world areas are likely to experience the fastest growth over the next decade or two, and chances are that Latin America and the Pacific Rim will emerge at the top of their list.

Ask government officials and corporate executives here in Florida what Latin America's predicted growth pattern, in combination with the proposed Free Trade Area of the Americas, could mean to them and they will tell you in three words: Money ... Jobs ... Prosperity.

Ask the man-in-the-street and his spouse what they think about Latin America, and you're likely to get either a dismissive shrug or a spirited diatribe on dictators, devaluations, debts, drugs, and deadbeat illegal immigrants.

This sharp disparity of views underscores the problem of moving from forecast to fulfillment on what many experts regard as an enormous opportunity for Florida and for the nation, to expand free trade and economic stability throughout the Americas.

Proponents of an economically unified hemisphere argue that if all the Latin American countries joined the U.S., Canada and Mexico in a free trade arrangement, the results could be truly dramatic. Under such a plan, it would eventually be as easy for one member country to trade with another as it is now for Florida to trade with New York or New Jersey. This move could accelerate the flow of investment and technology to Latin America's 400 million people, helping ultimately to lift millions out of abject poverty. It could also give U.S. companies a strong leg up in an increasingly global and interconnected marketplace.

However, free trade is never an easy sell, as we saw quite clearly in the rancorous debate on Capitol Hill over NAFTA, the North American Free Trade Agreement, linking the U.S. with Canada and Mexico. The noted British historian Thomas Babington Macaulay said it best: "Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular."

What I'd like to do this morning is to look with you at the way Latin America has changed, politically and economically, over the past two decades as it has moved encouragingly toward freer trade; then examine how Florida and the rest of the United States stand to benefit from these changes; and finally consider some of the steps that must be taken to assure that things work out for the best.

HOW LATIN AMERICA HAS CHANGED

In the 1980s, Latin America had the dubious distinction of being a nursing home for some of the world's sickest economies. Countries were mired in recession, and laboring inefficiently behind high tariff walls. Inflation was running at annual rates above 1000%. Many disheveled governments, unable to pay their international financial obligations, could not attract fresh capital or raise additional taxes. It looked for a while as if this widely heralded "debt crisis" might actually bring about the collapse of some major U.S. banks that had been overly generous in lending money abroad without giving much thought to the realistic chances of getting it back. Little wonder that Latin American businessmen refer to the 1980s as "la decada perdida de los ochenta," the lost decade of the Eighties.

On the brighter side, though, the urgent need to wrestle with these problems brought forward a new set of Latin American government officials, civilians rather than military men, many of them with advanced degrees from elite U.S. universities. For the most part, they subscribed to democratic values and enacted far-reaching economic reforms including deregulation, reduction of government spending, inflation control, liberalization of trade and finance, and privatization of government-run enterprises. All these moves were aimed at restructuring their economies along free market lines.

Mexico surprised a lot of people by inviting foreign competitors into its once strongly protected banking sector. Brazil began to privatize its energy sector and lift the ban on private investment in telecommunications and other areas. Argentina licked its perennial hyperinflation, and enacted reforms covering everything from workers' compensation to social security.

None of the reforms was more significant or more widespread in impact than discarding the strategy known as Import Substitution. This short-sighted strategy holds that countries should manufacture as much as possible at home, regardless of whether they can import cheaper and better quality products from abroad. Of course, to carry out this strategy, governments have to subsidize local industries and construct high tariff barriers to protect them from foreign competition.

Argentina spent a bundle to shelter its fledgling pharmaceutical industry, only to discover that a smaller country can ill afford the extravagant costs of becoming competitive in a highly research intensive business. Similarly, Brazil embarked on a quixotic quest to build its own computer industry, shutting out IBM and other imports, until the utter impracticality of the effort became abundantly clear.

Serving as a model for Latin America's economic reform campaign has been Chile, a country of some 14 million people. A paragon of economic achievement, it has posted more than a decade of strong growth, and has an open, healthy economy with rules encouraging trade and investment. Unemployment is low, salaries are rising steadily, and fiscal accounts are in reasonable balance.

If you, as an investor, had had the foresight to put $1,000 into Chile's market index on January 1, 1986, you would own about $43,000 worth of stock today. That's almost eleven times the growth of our own Standard & Poor's 500 Stock Index over the same period. Today, Chile is regarded by many as the best managed country in the Western Hemisphere. In fact, its currency is the hemisphere's only one that rises against the U.S. dollar.

At this point, some of you may be thinking: "Well, bully for Chile, but what about Mexico, our nearest and most important Latin neighbor?" Recent polls show that three out of four respondents consider Mexico of "vital interest" to the United States, a much higher proportion than any other Latin country. When all is said and done, Mexico is still 100 million people on the U.S. doorstep.

In 1993, when Congress approved the NAFTA accord with Mexico, proponents boasted about the country's booming economy and constructive reforms. Since then, though, Mexico has been shaken by a series of shocks, guerrilla uprisings, assassinations of prominent political figures, disclosures of high-level corruption, and the 1995 collapse of the peso and the Mexican economy.

It's not too far-fetched to look at the peso crisis as the equivalent of a bank-run on an entire continent. Mexico's bungled devaluation of its currency prompted global financiers to retreat in panic from much of Latin America, a move the press dubbed whimsically as the "tequila effect." When the U.S. Congress refused to come up with a bailout package for Mexico, President Clinton announced an unprecedented $50 billion aid plan, of which the U.S. contributed $20 billion.

Since then, things have improved somewhat. Mexico has paid back most of the money it got from the U.S. The credit agencies have upgraded Mexico's government bonds from "negative" to "stable." U.S. firms that increased their stake in Mexico after the approval of NAFTA say they are there for the long haul.

The economy is recovering briskly from recession, but Mexican President Ernesto Zedillo finds himself in a bit of a bind right now. He wants to continue his economic austerity program to keep a tight rein on inflation and on the budget deficit. But old line party bosses, with an eye on next year's local and congressional elections, would prefer to step up government spending to stimulate the lagging economy and create more jobs. So President Zedillo, a Yale trained economist and former central banker, may have to modify his plans to keep peace within his own party. Maybe that's why he hinted recently that he may try lifting Mexico's long standing ban on casino gambling. Viva Las Vegas!

Recent events in Mexico point up the fact that not every Latin American country has yet developed as firm a commitment to sound economic policies or as fully matured a democratic system as Chile. Nevertheless, it would be a grave mistake to underestimate the commendable strides that have been made toward realizing the dream of Simon Bolivar, Latin America's great Liberator of the 19th century, for a form of democracy based on limited government and respect for human rights.

FLORIDA'S STAKE IN LATIN AMERICAN TRADE

In view of Latin America's notable progress in recent years, and its rosy economic outlook, it is not surprising that Florida and other states would be eager to share in her widely predicted prosperity. As Florida's Senator Connie Mack said: "We have a finger pointing at an incredibly large market. If there was ever a state that was primed to take advantage of an expansion of trade, it's Florida."

As the nation's fourth most populous state, Florida can boast of a highly attractive business environment, thanks to its geographical location, its favorable tax structure, and its modern complex of airport and seaport facilities. It has become a leader in job creation, and the premier freight consolidation and distribution center for trade with Latin America and the Caribbean region.

Some $50 billion worth of goods pass through U.S. Customs in Florida in the course of a year. Half of U.S. trade with Central America and the Caribbean islands flows through Florida, as does about one-third of trade with South America. With its large Hispanic population, Florida has developed a bilingual labor force, thoroughly knowledgeable in foreign markets and business practices, and a business community that supports an international infrastructure of high-level banking, accounting and legal services.

In keen anticipation of an even greater boom in Latin American trade and investment, cities like Jacksonville, Orlando, Tampa and Fort Lauderdale are gearing up for action. Orlando has been particularly aggressive in cultivating Mexican business. But Miami has emerged as the administrative and managerial hub of Florida's Latin American business. Indeed, the Miami business community talks about itself proudly as "the business capital of the Americas."

Celebrating its centennial in 1996, the city has transformed itself over the years from a sleepy southern enclave into a bustling international complex that is often compared with Hong Kong in its dynamism. Miami bridges Anglo and Latin cultures just as Hong Kong links Anglo and Chinese cultures. Miami International Airport has surpassed New York's JFK as the nation's biggest cargo handler, and offers more passenger flights to Latin America than all other U.S. airports combined.

Major multinational companies like General Motors, Kodak and Hewlett Packard have relocated their Latin American units to Miami because of the city's marked superiority in airline and telecommunications connections. They have been joined by more than 300 multinational companies and banks.

Miami's Latin culture has long been established by its substantial Cuban population. However, many other ethnic groups regard the city as their home, too. Over the past 25 years, the Hispanic population has tripled and now accounts for roughly half of Metropolitan Miami's 2,000,000 people. Cubans make up two-thirds of the Hispanic segment, but the numbers of Colombians, Venezuelans and Nicaraguans are mounting rapidly. The Latin culture has become an accepted part of the city at all levels. It is not unusual for visitors to corporate headquarters to be offered their choice of coffees; Americano or Cubano, the thicker, darker variety from Cuba.

Miami's business leadership was recognized two years ago when it was designated to host the Summit of the Americas. This conference brought together 34 democratically elected leaders of the Western Hemisphere who pledged to create, by the year 2005, a Free Trade Area of the Americas (FTAA). Since the Summit Conference, trade ministers of the participating countries have met twice to reaffirm their commitment to hemispheric integration, to work out important details, and to consider what trade and investment measures could possibly be implemented immediately, without waiting for the formal deadline of 2005.

ELECTION YEAR DELAYS AND DISTRACTIONS

Cheered by the outward signs of progress, optimists in Miami and Florida's other major cities have begun counting their blessings and their earning prospects. But realists are more cautious, reminding one another that it has taken the pioneering European Union the better part of 40 years to get where it is now, and it still has a few knotty problems to work out, such as the single currency issue.

True to form, there have been annoying delays and distractions on the road to Western Hemisphere integration, most of them attributable to our election year politicking. At the Miami Summit, leaders of the United States, Canada and Mexico invited Chile to join NAFTA. However, President Clinton was unable to persuade the Republican controlled Congress to put Chile's accession on a so-called legislative "fast track," voting it up or down without adding restrictive conditions. So Chile was placed on hold, and immediately joined MERCOSUR, the Southern Cone Common Market, which is part of a network of regional free trade pacts spreading across Latin America.

Then in a bid to curry favor with Cuban American voters, Congress passed and the President signed the Helms-Burton Act, aimed at preventing foreign companies from doing business in Cuba. Immediately U.S. allies, led by Britain, Canada and Mexico, expressed outrage at what they saw as our busybody meddling in foreign trade. Many American companies were also miffed, fearing that the law might complicate their reentry into Cuba if or when 70-year-old Fidel Castro departs from the scene.

Neither political party was eager to discuss foreign aid or trade for fear of annoying some hefty campaign contributors. When a high-level delegation of corporate executives, under the auspices of the American Chamber of Commerce of Mexico, called at the White House to deliver a progress report on NAFTA, they felt they were given a brusque brush-off by senior staff officials. "It was a disaster," one member of the delegation told World Trade magazine. "They didn't know what we were talking about. They didn't want to know either. They kept telling us this is an election year, as if next year they will swing back into action. It was very troubling."

Interestingly, while the U.S. has been preoccupied with politicking, its two major world trade rivals — Germany and Japan — have sent blue-ribbon trade missions to Latin America, each headed by the country's chief-of-state with their order pads at the ready.

LESSONS FROM THE NAFTA DEBATE

Once President Clinton and members of Congress recover their voices after their campaign exertions, the expectation is that trade discussions will resume with full vigor. The Clinton administration's first initiative is likely to be another effort on Capitol Hill to secure fast-track authority to negotiate. That would allow Congress to accept or reject a deal, but not haggle endlessly about amending it. Without this fast-track authority, the Latin American countries believe, trade negotiations with the U.S. would be a complete waste of time. The feeling is widespread that many members of Congress talk a good free trade game, but abandon it quickly when faced with a protectionist appeal from their home state or district.

The Clinton administration also recognizes that it has a long way to go in building public understanding and support for the idea of hemispheric unification. Studies show that most U.S. citizens know painfully little about Latin America beyond the outdated stereotypes gleaned from Hollywood films in which Latins are usually portrayed as either bumbling and inept or as abusive and blood-thirsty. Opinion polls suggest that citizens generally give low priority to Latin America with the exception of Mexico, and express little desire to commit U.S. economic resources for anything other than to deter drug trafficking or reduce illegal immigration.

So another "great debate" seems inevitable before the U.S. can negotiate seriously about promoting a Free Trade Area of the Americas. In preparing for such an encounter, we can learn some valuable lessons from the acrimonious NAFTA debate.

The first is to avoid exaggeration if we want to retain any credibility at all. In retrospect, it is evident that both sides played fast and loose with the truth about NAFTA, one side in trying to canonize its benefits, the other in trying to demonize its drawbacks.

You'll recall that Ross Perot warned us repeatedly that the "giant sucking sound" we would hear would be millions of U.S. jobs moving south of the border. The fact is that 8,000,000 more Americans are employed today than before NAFTA. Even critics concede that the net job loss strictly from U.S.-Mexico trade during the past couple of years is in the low thousands rather than the high millions.

The Clinton administration has also been playing games with the employment numbers. At the outset of the debate, its spokesmen asserted that free trade with Mexico would generate 200,000 net jobs in the first two years. Now they're saying that jobs supported by exports to NAFTA partners have risen by 260,000 since 1993. What they don't tell us, though, is that the bulk of these job gains are attributable to exports to Canada, not Mexico. Clearly, the temptation to exaggerate the lilting litany of persuasion is overwhelming, as the recent political campaigns have amply demonstrated. But it sure plays hob with credibility.

A second lesson to be learned from the NAFTA experience is: Be careful about predicting that the other side will not play by the agreed-upon ground rules. Critics said this insistently about Mexico, but look what happened. One of the most widely publicized cases to arise from NAFTA is Mexico's complaint that our own Florida tomato growers are flouting the ground rules or, in the more diplomatic language of trade negotiators, are behaving in a manner "incompatible with the disciplines established by NAFTA." One publication, with an obvious sense of humor, referred to the incident as "The Great Tomato Pasting."

For years, Florida farmers have been upset over the inroads Mexico's fresh, vine-ripened tomatoes have made against Florida's tougher, gas-ripened varieties. Twice in the past year, the U.S. International Trade Commission has carefully considered the case and ruled against the Florida growers. But this fall, in the heat of the Presidential campaign, when Florida's 25 electoral votes were up for grabs, the Clinton Administration pressured Mexico into an agreement not to sell its tomatoes for less than a fixed price per pound. You might keep that in mind as the price of tomatoes goes up this winter when Florida and Mexico are virtually the sole suppliers of all the tomatoes that Americans consume.

A third lesson we can learn from the earlier debate is that the hot-button issue in this encounter, as in NAFTA, is likely to be jobs. The pro-trade folks will argue that a hemispheric free trade pact would benefit all member nations, large and small. The protectionists, or "fair traders" as they prefer to be called, will counter that dismantling tariffs and quotas would cost American jobs at the very time that many workers are worried that they themselves may become the next victims of downsizing.

As voter reaction to the forensic flourishes of Pat Buchanan and Ross Perot demonstrated, special pleadings on behalf of the vested interests who benefit from trade protection now get a far more sympathetic hearing than they once did. Keep in mind, though, that under trade protection, a small minority, tomato growers or auto companies or whatever, achieve highly visible gains by imposing almost invisible costs on a vast and unknowing majority. In other words, you and I as consumers usually get hurt in the process because we have to pay more for our tomatoes or our automobiles.

Let me show you how this works out in practice, with an example from recent history. In the early 1980s, Japanese auto makers began boosting their U.S. market share at the expense of our Big Three car companies. So our government negotiated a ceiling on the number of foreign imports to be admitted each year. The reduced supply of Japanese cars pushed up their prices by about $1,000 apiece, according to economist Robert Crandall of the Brookings Institution. The higher prices of Japanese imports enabled our domestic producers to raise their own prices by about $400 a car. The total bill amounted to $4.3 billion.

How many American jobs were saved in auto-related industries? Crandall estimated around 26,000. Dividing $4.3 billion by 26,000 jobs yields a cost to consumers of better than $160,000 per job saved. Crandall also worked out the arithmetic for the steel industry and came up with a cost of $750,000 per job saved. A pretty costly rescue operation.

Now many people say: "Well, if the average American worker earns, say, $14 an hour and the average Latin worker earns $2, won't free trade make it impossible to protect the higher American wage scale?"

The answer is no. Remember that wages are directly related to productivity, the value of goods or services produced per hour of work. U.S. workers are roughly seven times as productive as workers in some of the Latin American countries. Hence their pay is commensurately higher. If the U.S. concentrates its employment in those industries and occupations where it is most efficient, American wages can remain far above Latin wages for some time. As long as American workers are better educated, more skilled at what they do, and reinforced with more capital and superior technology, they will continue to earn more than their Latin counterparts. More open trade helps ensure that American labor is employed where it is most productive.

NEED FOR U.S. LEADERSHIP

Summing up, then, I think it is fair to say that as we approach the dawn of a new century, global economic forces are transforming the way we do business. Success in this new global economy requires meeting ever higher competitive standards. But it also requires building strong cross-border networks that can take full advantage of the kinds of local strengths we have to offer here in Florida, as the gateway to U.S. trade with Latin America.

As we have seen, these countries have made encouraging strides over the past few years in moving toward free market economies. Latin America is the fastest growing U.S. export market, taking almost $100 billion worth of our goods each year. By 2000, the Commerce Department estimates that Latin America will surpass Europe as a customer for U.S. wares. And by 2010, it will surpass Europe and Japan combined.

Now a compelling opportunity has developed to bring about hemispheric integration through the formation of a Free Trade Area of the Americas. This could be done either by expanding NAFTA to include the Latin American countries, or by merging MERCOSUR and the other existing regional trade pacts with NAFTA. However, this outcome is by no means assured. As the NAFTA controversy showed, protectionist forces will fight to delay and, eventually, to derail these plans. Ironically, the toughest lobbying against reciprocal free trade will be done by industry groups which stand to benefit most from U.S. efforts to open foreign markets.

The question will be asked: "Why should we bother to get involved at all, why ask for trouble?" The rationale, it seems to me, is very simple. We are already involved by reason of geography. Over the years, we have had to send troops to Latin America on more than 30 occasions, most recently to Panama and Haiti. If we can help the Latins through trade, we may be able to eliminate the need for such armed intervention in the future. If countries like Mexico can develop their own economies to the full extent, they will be better able to provide jobs for their own people who, in turn, will not be trying to get into the U.S. as illegal immigrants. If we default, the Germans and Japanese will be only too happy to take over as Latin America's major trading partners. So by helping Latin America, we are really helping ourselves.

Beyond these pragmatic reasons, though, the U.S. has a history of assisting other nations as the price of its world leadership. Nowhere was this more superbly exemplified than in the Marshall Plan that revitalized Europe's shattered economy after World War II, the most imaginative and generous initiative in our entire postwar diplomacy.

In my judgment, President Clinton has a chance to exercise the same kind of visionary leadership in this endeavor that President Harry Truman did in steering the Marshall Plan through a balky Congress. As with the Marshall Plan, a shared responsibility for making it work rests with those nations that expect to benefit from it, the Latin American countries. But the President must take the lead in mobilizing public opinion behind the cause, and persuading Congress, community leaders, and citizens generally that political and economic changes occurring globally can deeply affect us, both nationally and locally.

This may strike some as an unprecedented challenge, but I believe it can also be an unparalleled opportunity and one we should not pass up.

# The Best Is Yet To Come

## GLOBALIZATION, AMERICA AND THE NEW YORK STOCK EXCHANGE

Address by RICHARD A. GRASSO, *Chairman and CEO, New York Stock Exchange Inc.*

*Delivered to the Executive Club of Chicago, Chicago, Illinois, October 9, 1996*

Thank you, and good afternoon, ladies and gentlemen. You've been promised that I will give you my prediction as to when the Dow will reach 12,000. I know this is a moment market watchers have been waiting for. Because appearing here today is such a special event for me, I have decided to depart from the normal no-comment comment posture past NYSE Chairmen have assumed when asked to predict market developments.

So, having just reached 6000 for the first time in its century of existence, when will the Dow achieve twice its current level? Write this down, ladies and gentlemen: I guarantee that the Dow will double ... when it reaches 12,000.

It is a pleasure and an honor for me to be here today, because so many of the great companies whose shares we, at the New York Stock Exchange, are privileged to trade are headquartered here, in Illinois.

In fact, the 125 NYSE-listed companies have a collective value of half a trillion dollars. To put that in perspective, that's only $200 billion less than the collective value of all NYSE-listed companies in 1968, my first full year as an employee of the New York Stock Exchange.

Indeed, the Chicago community has played a major role in the success of the New York Stock Exchange. When the president of your organization asked me to talk about the direction of securities prices, I knew I was safe in this great town, because what better an organization to forecast securities prices than Jack Sandner's Chicago Mercantile Exchange. After all, I am merely a cash market, reflecting what Jack does each day, here

THE WHITE HOUSE

WASHINGTON

# OFFICE OF MACK MCLARTY
Counselor to the President
Special Envoy for the Americas

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THE WHITE HOUSE

WASHINGTON

Brief Biography
for

Steven J. Ronnel
Special Advisor to the President
and
Senior Advisor to the Special Envoy for the Americas

Steve Ronnel currently serves in the White House as Special Advisor to the President and Senior Advisor to Thomas F. "Mack" McLarty. Mr. McLarty is President Clinton's Counselor and Special Envoy for the Americas. He is also a member of the President's Cabinet, the National Security Council, and the National Economic Council.

The Office of Special Envoy for the Americas was created to coordinate the planning of President Clinton's three visits to Latin America during the first 15 months of his second term and to guide the administration's policies toward this dynamic and rapidly growing region.

Mr. Ronnel serves as communications director and a liaison to Congress on U.S. policy in Latin America. He travels often to Latin America with Mr. McLarty and other senior administration officials to promote American interests on issues such as trade, regional security, drug interdiction, immigration, and the expansion of democracy.

Mr. Ronnel joined the White House staff in 1996 as Senior Advisor to McLarty. His duties included service as the White House representative to the 1996 Summer Olympic Games in Atlanta, GA, and liaison to the U.S. business community on a wide range of issues.

From 1990-1996, Mr. Ronnel was a legislative assistant to Senator David Pryor (D-AR). Ronnel worked closely with Sen. Pryor to protect and strengthen Arkansas' military installations and to secure funding for vital transportation projects including the northwest Arkansas regional airport and the proposed I-69 interstate highway.

Mr. Ronnel, a native of Little Rock, AR, graduated from of the University of Texas-Austin with a bachelors degree in business administration. He lives in Alexandria, Virginia, with his wife, Jennifer, who is a tax attorney with Covington and Burling law firm in Washington, DC.

# The Americas Business Forum: A Stop on the Road Toward Hemispheric Commercial Integration

## *Fulfilling the Summit Promise: Hemispheric Commercial Integration*

By Mercedes Fitchett
*Office of Inter-American Affairs, U.S. Department of Commerce*

The Americas Business Forum and Trade Ministerial, March 18-21, 1996, in Cartagena, Colombia, were important milestones on the path to economic integration and free trade in the Western Hemisphere. Approximately 200 senior-level U.S. business leaders, led by the late Secretary of Commerce Ronald Brown, joined 1,300 hemispheric business colleagues to develop and present recommendations to the region's Trade Ministers for their consideration in negotiating commercial integration and the Free Trade Area of the Americas (FTAA). The Business Forum, which immediately preceded the Trade Ministerial, was a follow-up to last July's Western Hemisphere Trade and Commerce Forum and Trade Ministerial in Denver and the December 1994 Summit of the Americas in Miami.

### *Private Sector Key to Constructing the Free Trade Area of the Americas*

The Forum process recognizes the private sector's critical role in integrating the Hemisphere. Day-by-day, deal-by-deal, the region's industries have long been in the process of advancing hemispheric commercial integration. The private sector is uniquely positioned to work with governments to make progress now, in advance of formal trade negotiations, by identifying practical solutions to commercial barriers. More importantly, their activity increases trade and brings countries closer together, even as formal negotiations proceed.

***The late Secretary of Commerce Ron Brown, and current Secretary Mickey Kantor, led U.S. participation at the Americas Business Forum and Trade Ministerial in Cartagena.***

*Forum Industries and Issues*

Forum participants developed and presented recommendations to governments in 13 areas of sectoral and functional interest ranging from customs, rules of origin and market access, to intellectual property rights, investment, telecommunications, energy, transportation and services. An overarching theme emanating from business leaders was the value they place on being part of the negotiating progress through events like the Forum, and the need to establish a formal mechanism, both domestically and hemisphere-wide, through which their advice can be transmitted directly to government negotiators.

*The Trade Ministerial*

Immediately after the Business Forum, the region's 34 Trade Ministers met for the third Trade Ministerial meeting. Key developments emanating from the Ministerial include:

• Private sector representatives were assured of a continued key role in the FTAA's formation through Ministerial agreement to keep the private sector Forums and Summit Ministerials linked in Belo Horizonte, Brazil (1997) and Costa Rica (1998).

• Finally, Trade Ministers agreed to consider recommendations at Belo Horizonte, on when and how to launch formal FTAA negotiations.

*Next Steps*

The Government of Brazil and private sector coordinators are already engaged in preparations for the third Americas Business Forum and Trade Ministerial which will take place in Belo Horizonte, Brazil, in May 1997. The Department of Commerce and other organizations will work closely with the U.S. business community to ensure their strong participation at the Forum and keep them apprised of further FTAA developments.

*For More Information*

Summaries of workshop recommendations and Trade Ministerial declarations may be accessed through the International Trade Administration's web site at **http://www.ita.doc.gov**. Additional Forum and FTAA-related materials may be obtained via the Organization of American States Foreign Trade Information System - SICE homepage at **http://www.sice.oas.org** and the Business Network for Hemispheric Integration (BNHI) at **http://www.tuanis.com/empresas/reih/reih.htm.**

## *Environmental Technologies Cooperation with Colombia*

### By Kristine Bretl, Office of Environmental Technologies Exports

At the Americas Business Forum in Cartagena, the late Secretary of Commerce Ron Brown and Colombia's Minister of Environment, José Vicente Mogollón, launched a new environmental initiative to advance commercial cooperation between the two countries. Consistent with the Summit of the Americas process, this agreement focuses regional attention on sustainable economic development led by the private sector.

Flanked by Deputy Assistant Secretary for Environmental Technologies Exports, Anne Alonzo; U.S. Ambassador to Colombia Myles Frechette; the Mayor of Cartagena; and several U.S. and Colombian environmental business representatives, the two officials signed the memorandum of understanding (MOU) that agrees to four key points:

1) Bi-national cooperation, working with the private sector, to identify and implement projects to help meet environmental standards;
2) The exchange of environmental and commercial information;
3) Public and private-sector training, trade missions, and other events;
4) Prioritizing attention to highly contaminated, high population density areas, including Cartagena.

At the event, Secretary Brown made the point, "We all win through . . . efforts (such as this): business and the economy grows, the public health improves, new technologies emerge, and our two countries collaborate in an area of critical and mutual interest."

Activities resulting from the MOU are already under way. One such activity is an environmental technologies Technical Seminar Mission to be led by the Commerce Department's Office of Environmental Technologies Exports. The mission will be made up of a select group of U.S. firms that will meet with and give technical presentations to their Colombian audience. If your firm is interested in participating in the ETE-led mission, please contact Kristine Bretl at 202-482-3889 (phone), 202-482-5665 (fax), or kristine_bretl@ita.doc.gov

# The North American Free Trade Agreement (NAFTA): A Status Report

**By Paul Dacher**
***Office of NAFTA, U.S. Department of Commerce***

The United States, Canada and Mexico implemented the North American Free Trade Agreement (NAFTA) in January 1994. NAFTA is a region-wide agreement that progressively eliminates tariffs and non-tariff barriers to trade in goods; improves access for services trade; establishes rules for investment; strengthens protection of intellectual property rights; and creates an effective dispute settlement mechanism. NAFTA also contains supplemental agreements which provide for cooperation on labor standards and environmental issues. NAFTA implementation has improved U.S. export performance in North America.

By all measures NAFTA's first year was a success. Two-way trade between the U.S. and Mexico grew 23 percent. Growth was balanced, with exports and imports increasing at relatively equal rates. The payoffs were clear as U.S. exports of products previously subject to tariff or non-tariff barriers in Mexico increased dramatically.

In 1995, $46.3 billion in U.S. goods were exported to Mexico. These sales, however, were down $4.5 billion from a record setting $50.8 billion in 1994, an 8.9 percent decrease. Largely as a result, the United States ran a $15.4 billion merchandise trade deficit with Mexico in 1995, after enjoying four consecutive years of trade surpluses.

The setback in U.S. exports must be viewed in light of Mexico's economic circumstances. In 1995, one of the most difficult years on record for the Mexican economy, Mexico's gross domestic product contracted by nearly 7 percent—the deepest recession to hit Mexico since 1932.

Remarkably, despite this retrenchment, U.S. exports to Mexico were still $4.7 billion higher in 1995 than they were before NAFTA. There is no doubt that NAFTA helped limit U.S. export losses. This is evident in the vastly different Mexican response to the peso devaluations of 1994 and 1982.

In 1982, Mexico closed off its market, raising import duties to 100 percent, imposing import licenses across the board and nationalizing certain sectors of the economy. U.S. exports were cut in half and took six years to recover. A similar response in 1994 would have resulted in a plunge in U.S. exports to Mexico of $20 billion, with little prospect of recovery before the year 2000.

However, with NAFTA, Mexico reacted more prudently, and the expected decline in U.S. exports was relatively small and short-lived. In fact, the fall in U.S. exports actually stabilized in the second quarter of 1995. Exports have since begun to recover. In 1996, U.S. exports to Mexico are rebounding strongly, increasing by nearly 16 percent in the first four months of the year compared to the same period in 1995. Certainly NAFTA has been a factor in contributing to the regained momentum of U.S. exports to Mexico as that country's economy recovers.

Moreover, with NAFTA, U.S. goods are faring far better in the Mexican market than the foreign competition. The U.S. share of Mexico's import market rose to nearly 75 percent in 1995, from less than 70 percent before NAFTA.

Instead of retreating into protectionism, Mexico is honoring its NAFTA commitments. Because of NAFTA, U.S. goods enjoy greater tariff preferences than ever in the Mexican market. In accordance with NAFTA provisions, Mexico implemented the third round of NAFTA tariff cuts on January 1, 1996. While Mexico has raised most-favored-nation duties on many products, NAFTA goods have been left untouched as mandated by the agreement.

A quick review of the numbers reveals the continued recovery in U.S.-Mexico trade., U.S. exports to Mexico are growing, as evidenced by the $17.4 billion total in U.S. exports to Mexico for January through April 1996, a nearly $3 billion, or 16 percent, increase over the same time period in 1995. During the first four months of 1996, U.S. exports of foods, feeds, and beverages totaled $1.5 billion, a $691 million or 82 percent increase over the first four months of 1995. Similarly, U.S. exports of industrial supplies to Mexico totaled $5.2 billion from January to April 1996, an $820 million or 18 percent increase over the same period in 1995. The substantial increase in U.S. exports to Mexico engendered by NAFTA's negotiated trade barrier reductions is testament to its substantive economic benefits.

Imports from Mexico are also increasing. During the first four months of 1996, U.S. imports from Mexico totaled $22.6 billion, a $2.9 billion or 15 percent increase over the same period in 1995.

Many U.S. imports from Mexico incorporate substantial amounts of U.S. components in their production. This is encouraged by NAFTA's strong rules of origin. For example, to obtain NAFTA benefits, apparel products must be made of fabrics cut and sewn in North America, while 50 percent (rising to 62.5 percent by 2002) of the net cost of automobiles and light trucks must be directly traceable to North America. Thus, a shift in the sourcing of U.S. imports towards Mexico tends to benefit the United States.

Looking northward, since the implementation of the U.S.-Canada Free Trade Agreement (CFTA), and the subsequent NAFTA, trade between the U.S. and Canada has also increased, strengthening its standing as the largest trading relationship in the world. In 1995, two-way U.S.-Canada trade totaled $272 billion. Through the tariff reductions begun under the CFTA, the U.S. was able to reach a record level of both exports to and imports from Canada in 1995. U.S. merchandise exports to Canada totaled $127 billion in 1995, up $12.7 billion or more than 11 percent from 1994. At the same time, U.S. merchandise imports from Canada totaled $145.1 billion in 1995, a 12.5 percent increase over imports in 1994. During the first four months of 1996, the U.S. exported $44.2 billion to Canada, a $1.8 billion increase over the same time period in 1995. While the United States has a deficit with Canada in overall merchandise trade, it maintains a trade surplus in manufactured goods, as well as a trade surplus in services.

NAFTA is a solid long-term foundation for North American trade. It has provided a steady, predictable foundation that has helped promote intra-regional trade. Trade among the NAFTA partners increased by 10 percent in 1995, growing by $35 billion in just one year. As a result, intra-North American trade totaled almost $385 billion in 1995. The significance of NAFTA is highlighted by the fact that in 1995 the NAFTA partners were responsible for nearly 29 percent of overall U.S. trade. Canada accounted for over 20 percent of two-way U.S. trade and Mexico was responsible for more than 8 percent.

## *Secretary Kantor, Mexican Secretary Blanco Convene Second Major Border Development Conference in San Antonio*

U.S. Commerce Secretary Mickey Kantor and Mexico's Secretary of Commerce and Industrial Development Herminio Blanco Mendoza convened a conference August 4-6 in San Antonio to foster private sector participation in developing and implementing successful infrastructure projects along the U.S.-Mexico border.

One year after the passage of the North American Free Trade Agreement (NAFTA), U.S. exports to Mexico grew by over 20 percent, and are now running near the level they were before Mexico's peso devaluation in late 1994. The United States now exports over $4 billion per month to Mexico, and U.S. exporters have increased their market share in Mexico while that of the European Union has fallen.

NAFTA has also created expanded opportunities for private sector participation in infrastructure development along the U.S.-Mexico border. Rapid economic and population growth along the border requires increased basic infrastructure services: transportation, sanitation, housing and power supply. These factors, coupled with Mexico's ongoing privatization of its ports, railways and energy sectors, have created tremendous opportunities for private sector involvement in infrastructure growth, and for significant increases in employment opportunities in the region.

The purpose of the conference was to develop strategies to create successful border infrastructure projects — from planning to financing — and to explore how the private sector can take advantage of the new business opportunities created by the rapid economic and population growth along the border.

"The San Antonio conference will help to enhance the opportunity for innovative financial mechanisms and increased coordination of both existing and new border initiatives which will improve the quality of life on both sides of the border," Secretary Kantor said in a pre-conference statement.

The conference addressed financial and planning mechanisms that would promote infrastructure projects and border development in four key sectors: energy, environment, transportation and housing. Since the 1993 conference, several highlighted infrastructure projects in these sectors have been financed and constructed and both the Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank) have come on-line. The 1996 conference built on these successes and promoted improved environmental quality, elevated per capita income, expanded opportunities for employment, and increased efficiency of transportation and trade flows in the border region.

"Our goal is to foster private sector participation in the vast array of critical and exciting infrastructure projects and border initiatives now under discussion. The Clinton Administration remains committed to pursuing the basics needed to build a strong economic foundation with our neighbors, while strengthening our own economy," Kantor added.

Conference participants included 300-400 senior business executives and government leaders interested in cross-border infrastructure development.

# Saying No to Bribery—Latin America Leads the Way

By Ambassador Harriet C. Babbitt
*U.S. Permanent Representative to the O.A.S.*

When the OAS Inter-American Convention Against Corruption was opened for signature in March in Caracas, it capped a remarkable year in which the nations of the hemisphere had worked together to craft a ground-breaking document at an undiplomatically rapid pace.

Only a few years ago, corruption was a taboo subject in Latin America. But during the last two years, Latin America has taken the lead globally. Leaders of the region realized that democracy depends on the confidence of the people in the integrity of their government. Officials engaged in economic reform efforts realized that corruption undermines economic liberalization, because corrupt markets are not allowed to function freely based on quality and price.

The Convention obligates countries to criminalize a number of corrupt acts, ranging from bribery to influence peddling. It provides for extradition, for mutual legal assistance (e.g., taking depositions and sharing evidence), and for seizure of assets in connection with such acts. It even restricts the ability to hide behind some commonly used defenses, such as bank secrecy, or the fact that a corrupt act may not have cost money to the national treasury.

## *The Inter-American Convention is a ground-breaking legal tool but an important political commitment as well.*

The Convention also encourages countries to adopt a wide range of principles and regulations in the area of government and corporate ethics. These include a call for countries to enact requirements on personal financial disclosure for senior government officials, and to create systems of government hiring and government procurement that assure openness, equity, and efficiency. The Convention encourages disclosure rules for publicly held companies, similar to those established in the U.S. by the SEC, which are designed to provide sufficient internal accounting controls to enable the detection of corrupt acts.

A key objective of the U.S. during these negotiations was to get other countries to criminalize the bribery of foreign government officials, as we do in the U.S. under the Foreign Corrupt Practices Act of 1977. For too long U.S. companies have been alone among the world's enterprises in being expected to follow ethical behavior abroad. Commerce Secretary Brown, and his successor Ambassador Kantor, both stressed the need to export ethical standards of business conduct.

The U.S. was successful in gathering support for strong language requiring each country, subject to its Constitution and fundamental legal principles, to prohibit and punish the bribery of foreign government officials. After years in which the U.S. stood alone in outlawing this practice, the commitment of all 34 OAS Member States to criminalize transnational bribery is a milestone. Such criminalization will also facilitate extradition of wrongdoers for this offense, since the Convention requires the Parties to extradite with respect to offenses established in accordance with the terms of the treaty.

The importance of this treaty goes beyond Latin America. The Inter-American Convention will serve as a model for common efforts throughout the world to combat corruption in order to safeguard democracy and to promote well-functioning markets. The Convention comes at a time when the U.S. is making progress in fighting transnational bribery in other fora as well. Last April the OECD Council approved a recommendation against the tax deductibility of bribes, and a month later OECD Ministers committed themselves to a process leading to the criminalization of transnational bribery.

The Inter-American Convention is a ground-breaking legal tool but an important political commitment as well. It is a powerful statement by the leaders of the hemisphere that corruption will no longer be considered business as usual.

The complete text of the Convention is available on the OAS home page: http://www.oas.org. A summary is available from the Commerce Department's Office of the General Counsel at uiannone@doc.gov.

# 'Latin America and the Caribbean Is a Major Market For Our Goods and a Primary Source of Future Export Expansion'

## Remarks by Ambassador Stuart Eizenstat, Under Secretary of Commerce for International Trade

### *Salud-America 1996 Conference, San Diego, Calif., July 11, 1996*

One of the first regions I visited in my new position at the Commerce Department was Latin America—specifically Brazil and Argentina. I also accompanied members of the President's cabinet to participate in the bi-national commission in Mexico City. Needless to say this is a region of paramount importance to future export growth.

While in Argentina and Brazil, I had the opportunity to observe firsthand the dynamic opportunities available to U.S. companies as a result of economic reform, liberalization, and privatization. We are seeing fundamental shifts in the way business is being done in a wide variety of sectors, including telecommunications, infrastructure, environment, and services. These shifts have resulted in Latin America becoming the second fastest-growing region in the world for our exports. Between 1984 and 1995, our exports to Latin America grew from about $30 billion to $96 billion and supported more than one million export-oriented jobs. A remarkable reflection of the region's dynamism is the fact, despite the peso crisis, that 1995 exports represent nearly a $4 billion increase over 1994. Simply put, Latin America and the Caribbean is a major market for our goods and a primary source of future export expansion.

Nowhere is this potential more evident than in the health technologies sector, a sector that has experienced recent reform, liberalization, and privatization. Nearly every country in Latin America is engaged in some form of health care reform. This has resulted in a decentralization of public health care systems, expansion of health care coverage for all citizens, increased access to health services, and modernization and privatization of hospitals all over Latin America.

*While in Argentina and Brazil, I had the opportunity to observe firsthand the dynamic opportunities available to U.S. companies.*

For example, since the early 1980s, workers in Chile have a right to choose private or public health insurance. Today, 27 percent of Chile's population participate in the private health insurance institutions.

A new health care system in Mexico is being developed to provide health care coverage for the whole population. This will include over 10 million Mexicans who do not presently have access to the health care system.

These factors, along with continued economic growth and an expanding middle class seeking better health care, have served to increase opportunities for the sale of U.S. medical products and services in Latin America. These factors have also served to create a lucrative market for U.S. products and services. Between 1993-1995, the health technology market in Brazil grew at 20 percent, Argentina 24 percent, and Chile 39 percent. To put this market into perspective, the Brazilian health technology market was estimated at $980 million in 1995, larger than Korea, Taiwan, and India. The total health technology market in Mexico, Argentina, and Chile ($1.3 billion) is larger than China ($1 billion).

The United States is taking advantage of these opportunities. U.S. medical device exports to major markets in Latin America are growing almost twice as fast as exports to the European Union and Canada. Exports to Latin America reached $1 billion in 1995, an increase of

*The Commerce Department and the Clinton Administration stand ready to help U.S. businesses take full advantage of opportunities in these fast-growing markets.*

31 percent over 1991 exports. Exports of these products to Argentina, Brazil, and Chile are growing at double-digit rates—exports grew at an annual rate of 22 percent to Brazil, 10 percent to Argentina, and 16 percent to Chile between 1991-1995. We would expect exports of medical devices to Mexico to pick up as the Mexican economy recovers from the peso crisis and as a result of President Zedillo's decentralization of health care services.

Latin America is also a growing market for pharmaceutical companies—the fastest-growing market in the world. Between 1989 and 1994, the market grew 136 percent. Pharmaceutical markets in Brazil, Argentina, and Mexico are the fastest growing markets in the region. Brazil is the seventh largest market worldwide; Mexico is 10th, and Argentina 11th.

Health technologies exports to Latin America are also receiving a boost from other reforms. For example, when Argentina lifted the ban on imports of this equipment in June 1994, U.S. companies captured 70 percent of the $30 million import market. There is an increasing demand for used and refurbished medical equipment in Latin America. This type of equipment from the United States is highly favored in Latin America.

The Commerce Department and the Clinton Administration stand ready to help U.S. businesses take full advantage of opportunities in these fast-growing markets. Several trade promotion activities are available to assist U.S. companies in gaining access to the Latin American region.

◆ For example, the Commerce Department has a presence in several major medical device and dental trade fairs in Latin America. Among these were EXPOSALUD in Santiago, Chile in 1994 and 1995; ODONTO in Sao Paulo, Brazil in 1996; and HOSPITALAR, also in Sao Paulo, Brazil, in 1994 and 1996. The emphasis on recruitment was directed at assisting small- and medium-sized companies gain access to these emerging markets.

◆ To accomplish our purposes, we work in partnership with trade associations and other industry groups in an effort to assist the medical device industry increase their share of export markets. One such public-private partnership is specifically targeted at helping U.S. firms do business in Latin America. This organization, the Greater Philadelphia First (GPF), received a two-year grant from the Department's Market Development Cooperator Program to promote exports of medical devices to Brazil and Argentina. The unique aspect of this program is emphasis on training U.S. companies in identifying, selecting, and managing overseas agents and distributors. It also includes training overseas agents and distributors in working more effectively with U.S. principals.

While we have made significant progress, there still exist barriers to free trade and open markets. We are working aggressively to address these concerns.

In Mexico, pharmaceutical and dietary supplements companies have had to cope with a nontransparent and confusing regulatory structure—we are addressing these issues using NAFTA mechanisms. In the pharmaceutical area, U.S. companies have had to cope with the problem of inadequate intellectual property protection in Brazil and Argentina. We are pleased that Brazil passed a new industrial property law covering patents in April. This law contains many positive elements, including a shortened year transition period before WTO intellectual property rules come into effect, and protection for pharmaceuticals in the regulatory pipeline. We are concerned about certain deficiencies in the law and hope to work with the Brazilian Government to correct them.

We are very disappointed with patent developments in Argentina. The patent law and implementing regulations enacted by the Argentine Congress last year are seriously flawed. The law provides no protection for pharmaceuticals until almost 2001, and the protection that will come into effect at that time is inadequate. As a result, Argentina has been placed on the U.S. Government's Special 301 "priority watch" list signifying that its IPR practices are especially significant for U.S. interests and that special attention will be devoted to resolving this problem.

Improvements can and will be made in our trading relationship with Latin countries. We will work with you and our counterparts to address these and other issues.

Our efforts in Latin America consist of dealing with the tedious, yet important "nuts and bolts" issues in the framework of our trade and investment relationship. Issues such as how to develop regulatory structures for sectors formerly operated by governments in ways that protect the public interest while fostering private investment? How can we cooperate on product standards in ways that facilitate trade? How can we use the wonderful new tools of the information age to expand, deepen, and disseminate knowledge about trade and investment opportunities in our respective markets? How can we better identify and implement trade facilitating measures at our ports, in our tax regimes, and in our commercial codes?

These are issues which our governments and private sectors can and should be jointly pursuing on a daily basis. Grassroots efforts are an important component of any effort to expand our trade relationship. Formal arrangements such as the NAFTA give us a forum to address such issues. A Free Trade Agreement of the Americas (FTAA), for which we have committed to complete negotiations by 2005, would provide us with such a formal mechanism for the rest of the hemisphere.

Why are we so focused on improved trade opportunities in growing markets like Latin America? Why are we so concerned about increasing exports? Why do we have such a deep commitment to opening markets and moving towards hemispheric integration? The answer is simple—jobs. Trade and exports are essential to the creation of high-paying American jobs. Exports today represent over 12 percent of our GDP, up 45 percent since 1980, when it was 8.5 percent. In 1995, 11 million jobs depended upon exports, and by the year 2000 that number will rise to nearly 16 million. At a time when we are concerned with a flattening of wages, on average, jobs related to exports pay about 15 percent more than the hourly wage in the rest of the economy. Over the past seven years, export-related jobs have grown eight times faster than total employment, and exports have accounted for one-third of the total U.S. economic growth, even though they represent only 12 percent of the overall economy.

***The recent FTAA Ministerial in Cartagena resulted in the definitive establishment of private sector involvement in the creation of the FTAA.***

The Clinton Administration has long recognized that expanding trade means greater economic opportunity; promotes the health, welfare, and livelihood of all the region's peoples; fosters development; and helps to ensure that democracy remains the rule, not the exception, in the hemisphere.

We recently saw a vivid example of the connection between economic integration and democracy in the events in Paraguay. The concerted counter-reaction from throughout the hemisphere to the Paraguayan coup attempt was swift and decisive, particularly by Paraguay's MERCOSUR partners. Commercial integration and democracy go hand-in-hand.

The Clinton Administration has developed a coherent commercial policy in this region and has moved aggressively to capitalize on the many changes occurring in the region to promote economic growth, expand trade opportunities, and to support democracy—our paramount foreign policy goal in the Western Hemisphere. We have seen the fruits of this policy evident in:

★ The successful negotiation and implementation of the NAFTA—which, despite the peso crisis, has been good for American economic growth and job creation. We see the value of NAFTA right here in San Diego where exports to Mexico total over $2 billion, comprising 40 percent of total exports.

★ The further hemispheric integration started at the Summit of the Americas in Miami in 1994. Such integration will further trade and export growth as we enter the 21st century.

★ The reestablishment of democracy in Haiti, coupled with the Haiti Recovery Initiative designed to grow Haiti's economy and advance economic opportunity;

★ The formation of Business Development Councils (BDCs), particularly focused on Argentina, Brazil, Haiti, and the Caribbean, which provide a valuable venue for private-public actions to expand trade and economic relations in Latin America. The BDC process underscores that there is a need for a strong private sector voice in the FTAA process. We can further that involvement by using the successful example of the Trans Atlantic Business Dialogue (TABD), a process I was closely involved with in my role as U.S. Ambassador to the European Union. Through the TABD, we created a structured approach and concrete recommendations that have been essential to an effective business role in government policy making. This model can be applied to Latin America.

In fact, the recent FTAA Ministerial in Cartagena resulted in the definitive establishment of private sector involvement in the creation of the FTAA. The Ministerial also resulted in agreement to consider recommendations at the 1997 Ministerial meeting in Belo Horizonte, Brazil, on starting actual negotiations. We also agreed on many business facilitation measures, in line with the Ministerial pledge to achieve concrete progress "by the end of this century" toward attainment of the FTAA by 2005.

The private sector throughout the hemisphere has a major role to play. As a result of your business transactions, commercial integration within the region is occurring day-by-day, deal-by-deal, inevitably and inexorably. You are the driving force behind our efforts.

How can you, the private sector, play a role in further hemispheric integration? For starters, actively participate in the process. Organize yourselves to provide advice and counsel to the negotiations. This is critical to achieving an FTAA that meets your goals, your needs, and your aspirations. Your presence here today demonstrates your interest and active participation.

Another opportunity for private sector participation will come at the upcoming U.S.-Mexico Border Infrastructure Conference being co-hosted by Commerce Secretary Mickey Kantor and Mexico's Secretary of Commerce and Industrial Development Herminio Blanco Mendoza on August 4-6, 1996, in San Antonio, Texas. This conference is a high-level event which will focus attention on the progress and problems facing the U.S.-Mexico border region today.

With the passage of the North American Free Trade Agreement in 1993, opportunities for private sector participation in infrastructure development along the U.S.-Mexico border have expanded. Rapid economic and population growth along the border has required increased basic infrastructure services in transportation, sanitation, housing, and power supply. These factors, coupled with Mexico's ongoing privatization of its ports, railways, and energy sectors, have created tremendous opportunities for private sector involvement in infrastructure growth.

The conference will address financial and planning mechanisms that would promote infrastructure projects and border development in four key sectors: energy, environment, transportation, and housing. Since 1993, several highlighted infrastructure projects in these sectors have been financed and constructed, and both the Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank) have come on-line. The 1996 conference will build on these successes and promote improved environmental quality, elevated per capita income, expanded opportunities for employment, and increased efficiency of transportation and trade flows in the border region.

Through active participation your voice is heard, and it is an important voice. You are the best source of ideas on how we can pursue early steps toward hemispheric integration through business facilitation—there are many ways we can make progress toward free and open trade, toward reducing tariff and non-tariff barriers in our hemisphere, before the completion of governmental negotiations.

Together, we must maintain consensus for free trade and, in the case of Latin America, hemispheric integration. This concept faces a serious challenge that is increasingly bipartisan, coming from both the political left and the political right—one that reflects the anxiety that is magnified in a world of rapid economic and technological change. Elsewhere in the region, governments face a backlash to the austerity that often accompanies economic reform programs, whose benefits have not yet begun to reach those most in need.

We must work together to communicate the benefits of trade and economic liberalization to clearly and vocally support these policies and sustain their momentum. The business community understands the stakes involved and the benefits that are available. As a Venezuelan minister once said, "People don't want reform because it is good economics. They want reform because it makes their telephone work or hot water run from their showers."

The Clinton Administration has always understood that the business community is a partner in the trade and economic process. The late Commerce Secretary Ron Brown's influence ensured that the private sector, throughout the hemisphere, will have a continuing, vital role to play in the creation of the FTAA, and he successfully achieved a direct link between future private sector business forums and ministerials. I look forward to working with you in building upon Secretary Brown's legacy, and trust that the public/private partnership that he initiated will continue to serve us well into the next century.

***The Clinton Administration has always understood that the business community is a partner in the trade and economic process.***

I would like to reiterate his words in Cartagena just a few weeks before his untimely death in Croatia, "Let me state unequivocally: trade among our nations is a force for progress. It helps our economies grow and it helps our citizens to prosper. And it seems to me those of us gathered here today need to continue to say that over and over and over again. Sometimes our citizens, sometimes the general public need a message that is constantly reinforced. So I am going to repeat it over again: trade among our countries is a force for progress. It helps our economies grow and it assures the prosperity of our citizens. And I hope that all of us can carry that message throughout our hemisphere." This was an important message that meant a great deal to Ron Brown, and it is a message I carry with me today. Trade is an important force for change and progress. It is essential that we continue on a course that will lead to hemispheric integration that will be beneficial to the United States and the countries of Latin America.

## Latin American and Caribbean Imports From and Exports to the US (1995)[a]

| | Imports from US | | Exports to US | |
|---|---|---|---|---|
| | Million US $ | Percent | Million US $ | Percent |
| Antigua & Barbuda | 105 | 44 | 3 | 9 |
| Argentina | 4.252 | 20 | 1.735 | 8 |
| The Bahamas | 737 | 38 | 162 | 25 |
| Barbados | 221 | 31 | 48 | 25 |
| Belize | 118 | 42 | 54 | 27 |
| Bolivia | 298 | 21 | 276 | 23 |
| Brazil | 12.722 | 24 | 8.550 | 18 |
| Chile | 3.792 | 24 | 2.068 | 13 |
| Colombia | 5.115 | 38 | 3.636 | 36 |
| Costa Rica | 1.955 | 54 | 1.832 | 48 |
| Dominica | 29 | 30 | 7 | 8 |
| Dominican Republic | 1.318 | 43 | 375 | 40 |
| Ecuador | 1.666 | 39 | 1.983 | 40 |
| El Salvador | 1.227 | 46 | 759 | 45 |
| Grenada | 29 | 22 | 6 | 18 |
| Guatemala | 1.833 | 49 | 1.506 | 50 |
| Guyana | 152 | 26 | 119 | 25 |
| Haiti | 613 | 62 | 122 | 75 |
| Honduras | 1.412 | 60 | 1.379 | 67 |
| Jamaica | 1.554 | 53 | 814 | 44 |
| Mexico | 46.089 | 72 | 56.695 | 81 |
| Nicaragua | 284 | 28 | 222 | 47 |
| Panama | 1.350 | 12 | 300 | 24 |
| Paraguay | 965 | 23 | 53 | 5 |
| Peru | 1.845 | 28 | 997 | 21 |
| St. Kitts & Nevis | 65 | 41 | 21 | 48 |
| St. Lucia | 91 | 30 | 33 | 27 |
| St. Vincent & Grenadines | 49 | 24 | 7 | 6 |
| Suriname | 201 | 39 | 75 | 14 |
| Trinidad & Tobago | 722 | 42 | 1.010 | 45 |
| Uruguay | 428 | 12 | 157 | 8 |
| Venezuela | 4.767 | 45 | 9.442 | 50 |
| **Regional Total** | **96.004** | **40** | **94.446** | **43** |

[a] Does not include the Caribbean dependencies.

## US Direct Investment Capital Flows (1995)[a]

| | Billion US $ |
|---|---|
| **Western Hemisphere** | **16.20** |
| Mexico | 1.90 |
| Latin America and the Caribbean | 14.30 |
| South America | 10.00 |
| Argentina | 2.00 |
| Brazil | 5.20 |
| Chile | 1.30 |
| Colombia | .30 |
| Ecuador | .10 |
| Peru | .30 |
| Venezuela | .60 |
| Other | .10 |
| Central America | 1.60 |
| Costa Rica | .30 |
| Guatemala | .04 |
| Honduras | .05 |
| Panama | 1.20 |
| Other | -0.02 |
| Other Western Hemisphere | 2.70 |
| The Bahamas | -0.30 |
| Barbados | 0.01 |
| Dominican Republic | 0.20 |
| Jamaica | 0.20 |
| Netherlands Antilles | 1.30 |
| Trinidad and Tobago | 0.10 |
| British dependencies | 1.10 |
| Other | -0.01 |

[a] Preliminary data, subject to revision. Totals may not add due to rounding.

# Western Hemisphere Trade Agreements

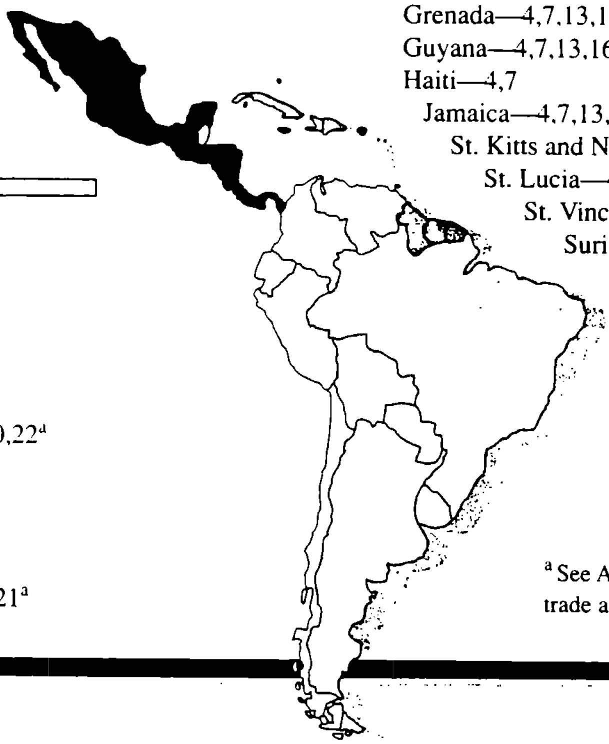
*1 June 1996*

### Mexico and Central America

Mexico—1,2,3,7,9,14,15,24
Costa Rica—4,7,10,12,14
El Salvador—4,7,10,11,12,14
Guatemala—4,7,10,11,12,14
Honduras—4,7,10,11,12,14
Nicaragua—4,7,10,11,12,14
Panama—2,4,7

### Caribbean

Antigua and Barbuda—4,7,13,16,17,22,23
The Bahamas—4,7,16
Barbados—4,7,13,16,17,22
Belize—4,7,13,16,17,22
Cuba—7
Dominica—4,7,13,16,17,22,23
Dominican Republic—4,7
Grenada—4,7,13,16,17,22,23
Guyana—4,7,13,16,17,22
Haiti—4,7
Jamaica—4,7,13,16,17,22
St. Kitts and Nevis—4,7,13,16,17,22,23
St. Lucia—4,7,13,16,17,22,23
St. Vincent and the Grenadines—4,7,13,16,17,22,23
Suriname—7,13,17,22
Trinidad and Tobago—4,7,13,16,17,22



### South America

Argentina—2,3,6,18
Bolivia—2,3,5,8,18,24[a]
Brazil—2,3,6,18
Chile—2,3,15,19,20,21
Colombia—2,3,5,7,8,9,12,20,22[a]
Ecuador—2,3,5,8,19[a]
Paraguay—2,3,6,18
Peru—2,3,5,8[a]
Uruguay—2,3,6,18
Venezuela—2,3,7,8,9,12,17,21[a]

[a] See Andean Pact for list of bilateral free trade agreements between its members.

### Trade Agreements

(Ranked by Value of Trade in 1995)[a]

1. North American Free Trade Agreement (NAFTA)
2. Rio Group[b]
3. Latin American Integration Association (LAIA)
4. Caribbean Basin Initiative (CBI)
5. US-Andean Trade Preference Act (ATPA)
6. Southern Cone Common Market (MERCOSUR)
7. Association of Caribbean States (ACS)[b]
8. Andean Community
9. Group of Three (G-3)
10. Central American Common Market (CACM)
11. Central American Free Trade Agreement (CAFTA)
12. Colombia-Venezuela-Central American Free Trade Agreement
13. Caribbean Community and Common Market (CARICOM)
14. Mexico-Central American Free Trade Agreement
15. Chile-Mexico Free Trade Agreement
16. Caribbean-Canadian Common Market (CARIBCAN)
17. Venezuela-CARICOM Trade Agreement
18. Bolivia-MERCOSUR Trade Agreement
19. Chile-Ecuador Free Trade Agreement
20. Chile-Colombia Free Trade Agreement
21. Chile-Venezuela Free Trade Agreement
22. Colombia-CARICOM Trade Agreement
23. Organization of East Caribbean States (OECS)
24. Bolivia-Mexico Free Trade Agreement

[a] All trade data are for 1995.
[b] The Rio Group and the Association of Caribbean States (consensus-building political entities) are included because of their current or potential roles in advancing regional economic integration.

Sources: IMF Direction of Trade Statistics for Latin American and Canadian trade; US Bureau of the Census for US trade. Intragroup trade calculated using import data; percentages are rounded off to the nearest whole number.

## 1. North American Free Trade Agreement (NAFTA)

***Membership:*** Canada, Mexico, and the United States.
***Type:*** Free trade area.
***Trade significance:*** Total intragroup trade, $361.9 billion; Canadian and Mexican imports from the US, $155.1 billion, 68 percent of total imports; US imports from Canada and Mexico, $206.8 billion. Exports to the US equal 80 percent of total Canadian and Mexican exports.
***Objective:*** Elimination of intraregional tariffs by January 2009; liberalization of services trade and investment restrictions; intellectual property protection.
***Status:*** Signed December 1992; ratified by US November 1993, became effective January 1994. Canada and Chile are negotiating a bilateral free trade agreement that will be a bridge to Chilean accession to NAFTA.

## 2. Rio Group

***Membership:*** Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela. Panama was admitted to the Group in September 1994 after being expelled in 1988 from predecessor organization, the Group of Eight. Central American representation on a consultations rotates; Jamaica represents Caribbean nations.
***Type:*** Political and economic cooperation.
***Trade significance:*** Total intragroup trade, $32.2 billion; Rio Group imports from the US, $83.3 billion, 40 percent of total imports; US imports from Rio Group, $[illegible]1.4 billion. Exports to the US equal 43 percent of total Rio Group exports.
***Objective:*** Coordination of political and economic policies; representation of Latin American countries in some multilateral organizations; reinforcement of high-level political commitment to regional integration, including elimination of non-tariff barriers to reciprocal trade.
***Status:*** Signed December 1989. No GATT review necessary.

## 3. Latin American Integration Association (LAIA) or Asociacion Latinoamericana de Integracion (ALADI)

***Membership:*** Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.
***Type:*** Economic cooperation and preferential trade arrangement.
***Trade significance:*** Total intragroup trade, $32.0 billion; LAIA imports from the US, $81.9 billion, 41 percent of total imports; US imports from LAIA, $[illegible] billion. Exports to the US equal 43 percent of total LAIA exports.
***Objective:*** Eventual creation of a Latin American common market through flexible tariff-cutting mechanisms; regional tariff and additional bilateral preferences; industrial cooperation; trade promotion, clearing and credit facilities.
***Status:*** Established by Montevideo Treaty of 1980; superseded Latin American Free Trade Area (LAFTA) — abandoned largely because of inflexible rules governing integration process. GATT Working Party review of LAFTA completed November 1960. LAIA granted observer status in GATT Council but no review has been conducted.
***Implementation record:*** Little progress toward common market; some regional trade liberalization through tariff preferences, but tariff cuts concentrated in trade between complementary economies. More successful as umbrella organization for negotiation of trade agreements among individual members.

## 4. Caribbean Basin Initiative (CBI)

***Membership:*** Antigua and Barbuda, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and the United States.
***Type:*** Preferential trade arrangement.
***Trade significance:*** CBI country imports from the US, $14.5 billion, 36 percent of total imports; US imports from CBI countries, $12.3 billion. Exports to the US equal 42 percent of total CBI country exports.[a]
***Objective:*** Economic revitalization of Caribbean countries through tariff preferences.
***Status:*** Provisionally established in 1984; made a permanent program in 1990 through Caribbean Basin Economic Recovery Act (CBI II). GATT Working Party review completed February 1985; current GATT waiver valid through 1995.
***Implementation record:*** US duties eliminated on all products except textile and apparel products, canned tuna, footwear, certain leather goods, and certain watches and watch parts.

[a] Figures do not include the British Virgin Islands and Montserrat.

## 5. US-Andean Trade Preference Act (ATPA)

***Membership:*** Bolivia, Colombia, Ecuador, Peru, and the United States.
***Type:*** Preferential trade arrangement.
***Trade significance:*** ATPA country imports from the US, $8.9 billion, 35 percent of total imports; US imports from ATPA countries, $7 billion. Exports to the US equal 33 percent of total ATPA country exports.
***Objective:*** Expansion of economic alternatives for Andean countries to combat drug production and trafficking by providing duty-free treatment to certain exports for a 10-year period.
***Status:*** US-Andean Trade Preference Act signed 1991. Eligible articles are the same as under CBI (except rum). GATT Working Party review began March 1992; current waiver valid until 2001.
***Implementation record:*** Beneficiary governments have implemented necessary arrangement mechanisms; however, because of emphasis on internal markets and insufficient promotion of ATPA, many businessmen have not taken advantage of benefits.

## 6. Southern Cone Common Market–Mercado Comun del Sur (MERCOSUR) or Mercado Comum do Sul (MERCOSUL)

***Membership:*** Argentina, Brazil, Paraguay, and Uruguay.
***Type:*** Customs union.
***Trade significance:*** Total intragroup trade, $14.3 billion; MERCOSUR imports from the US, $18.4 billion, 22 percent of total imports; US imports from MERCOSUR, $10.8 billion. Exports to the US equal 15 percent of total MERCOSUR exports.
***Objective:*** Original plan to form a common market by 1995, but deadline has been pushed back indefinitely; trade group currently exists as a customs union.
***Status:*** Signed March 1991; partial customs union launched January 1995. Discussed in GATT Committee on Trade and Development in July 1992 and in GATT Council in December 1992; presentation to WTO scheduled for October 1995.
***Implementation record:*** Phased reduction of intragroup tariffs on schedule with zero tariff on most intragroup trade implemented January 1995; a common external tariff (CET) of between 0 and 20 percent applied to most goods in 1995; individual national rates apply to imports of capital and high-technology goods until harmonized in next decade when capital goods receive a CET of 14 percent (which goes into effect in 2001 for Argentina and Brazil and 2006 for Paraguay and Uruguay) and, in 2006, when a CET of 16 percent is applied to informatics and telecommunications; little progress in harmonization of fiscal and monetary policy. Signed an Economic Complementarity Agreement with Bolivia in December 1995 targeting 30 June, 1996 for negotiating an FTA (see Bolivia-MERCOSUR Trade Agreement). Free trade negotiations with Chile nearing completion. Exploring trade agreements with other LAIA countries and the European Union. Long-term goal is formation of South American Free Trade Agreement.

## 7. Association of Caribbean States (ACS)

***Membership:*** Antigua and Barbuda, The Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador,

Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Venezuela.
***Type:*** Political and economic cooperation.
***Trade significance:*** Total intragroup trade, $8 billion; ACS imports from the US, $70 billion, 54 percent of total imports; US imports from ACS, $87.2 billion. Exports to the US equal 65 percent of ACS exports.
***Objective:*** The ACS aims to promote trade and scientific and cultural exchange in the region.
***Status:*** Signed July 1994; 21 of 25 signatories have ratified convention to inaugurate the ACS. First ACS-wide summit held in August 1995 to promote cooperation in tourism, trade, and transportation. No GATT review necessary.

## 8. Andean Community

***Membership:*** Bolivia, Colombia, Ecuador, Peru, and Venezuela.
***Type:*** Customs union.
***Trade significance:*** Total intragroup trade, $3.6 billion; Andean Pact imports from the US, $13.7 billion, 38 percent of total imports; US imports from Andean Pact, $16.7 billion. Exports to the US equal 41 percent of total exports.
***Objective:*** Phase-out of CET exceptions by 1999; harmonization of macroeconomic and agricultural policies; measures under consideration include creation of a common market, establishment of free trade in services, and coordination of industrial policies.
***Status:*** Founded 1969; revised 1989. No GATT review; granted observer status in GATT Council.
***Implementation record:*** Postponed several times; joint industrial projects abandoned. Free trade in a limited number of products has been in effect since early 1980s. Members began serious efforts to reduce intraregional trade barriers in 1991. Colombia and Venezuela established a bilateral free trade area and customs union in 1992. Ecuador failed to join the customs union in July 1992 as scheduled, but signed FTAs with Colombia and Venezuela in October 1992 and February 1993, respectively. Bolivia announced elimination of tariffs on manufactured goods imported from Colombia, Venezuela, and Ecuador in October 1992 and maintains FTAs with all three countries. Free trade between Bolivia, Colombia, Ecuador, and Venezuela has been in effect since February 1993, when virtually all intraregional tariffs were removed. Peru suspended its participation in 1992 but signed FTA with Bolivia and negotiated provisional agreements—providing duty-free treatment on a limited range of goods—with Colombia, Ecuador, and Venezuela. A deadline for Peru's reentry was repealed and Peru was allowed to keep its current tariff system and to negotiate the expansion of its trade agreements bilaterally. A CET was implemented on 1 February 1995 with Colombia, Ecuador, and Venezuela acceding to a four-tier external tariff structure of between 5 and 20 percent; Ecuador negotiated a temporary exception list of 400 items and Colombia and Venezuela maintain temporary exclusions on 270 items each. Bolivia was allowed to maintain its current two-tier tariff structure of 5 and 10 percent. Panama applied for admission to the Pact and received observer status in September 1995.
***New reforms***: The Trujillo Act signed in March 1996 renamed the Andean Pact as the Andean Community and mandated institutional reforms intended to promote cooperation in the political realm, make the economic integration process more dynamic, and facilitate negotiations with other trade blocs. The Andean Integration System—which will govern the Andean Community—will include a General Secretary authorized to decide on controversies on trade or other issues. Within five years, elections will be held for an Andean Parliament.

## 9. Group of Three (G-3)

***Membership:*** Colombia, Mexico, and Venezuela.
***Type:*** Free trade area.
***Trade significance:*** Total intragroup trade, $2.6 billion; G-3 imports from the US, $56 billion, 63 percent of total imports; US imports from G-3, $75.2 billion. Exports to the US equal 70 percent of total G-3 exports.
***Objective:*** Trilateral trade liberalization.
***Status:*** Free trade agreement signed June 1994 and went into effect January 1995. Tariffs will be phased out by 2005, although a number of significant exemptions will apply. Special rules for eliminating agricultural import licenses and price controls will be negotiated in annual reviews. Trade in textiles and apparel between Mexico and Venezuela are excluded from the agreement until at least 1997 and subject to future negotiations. Guaranteed freedom for currency transfers can be suspended if a country experiences a balance of payments crisis.

## 10. Central American Common Market (CACM) or Mercado Comun Centroamericano (MCCA)

***Membership:*** Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua (Belize and Panama participate in CACM summits but not in regional trade integration).
***Type:*** Common market.
***Trade significance:*** Total intragroup trade, $1.5 billion; CACM imports from the US, $6.7 billion, 50 percent of total imports; US imports from CACM, $5.9 billion. Exports to the US equal 52 percent of total CACM exports.
***Objective:*** Elimination of tariffs and quantitative restrictions within region, adoption of common external tariff; removal of foreign exchange constraints in intraregional trade; harmonization of monetary and fiscal policies.
***Status:*** Founded 1960, in effect since 1961; revised July 1991. Biennial reports submitted to GATT council.
***Implementation record:*** Initially on schedule; most restrictions lifted by early 1970s, reintroduced in 1980s. El Salvador, Guatemala, Honduras, and Nicaragua have recently moved to lower mutual trade and investment barriers (see Central American FTA), while Costa Rica is balking at implementation of integration plans. Common external tariff established in 1986 not effective for all members, while non-tariff barriers continue to limit intraregional trade of agricultural products. In March 1995, country economic ministers agreed to cut the CET from 5-20 percent range to 0-15 percent range, allowing each country to set its own timetable

## 11. Central American Free Trade Agreement (CAFTA)

***Membership:*** El Salvador, Guatemala, Honduras, and Nicaragua.
***Type:*** Free trade area.
***Trade significance:*** Total intragroup trade, $918 million; CAFTA imports from the US, $4.8 billion, 48 percent of total imports; US imports from CAFTA, $4 billion. Exports to the US equal 54 percent of total CAFTA exports.
***Objective:*** Acceleration of mutual trade liberalization in order to lay the foundation for an FTA with Mexico and, eventually, with the US.
***Status:*** Some provisions already in place. If Costa Rica decides to join the group, CAFTA will be subsumed by CACM.
***Implementation record:*** Proposed in May 1992 by El Salvador, Guatemala, and Honduras in part to speed the regional integration pace of Nicaragua and Costa Rica. Nicaragua endorsed the concept in 1994, but Costa Rica remains non-committal. El Salvador is implementing unilateral tariff reductions aimed at achieving a Central American FTA by 1997.

## 12. Colombia-Venezuela–Central America Free Trade Agreement

***Membership:*** Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Venezuela.
***Type:*** Free trade area.
***Trade significance:*** Central American imports from Colombia and Venezuela, $697 million, 5 percent of total imports; Colombia and Venezuela imports from Central America, $75 million, 0.3 percent of total imports.
***Objective:*** Elimination of tariffs on Central American exports; reciprocal lowering of duties on Colombian and Venezuelan exports in 5 years; free trade over 10-year period.

***Status:*** Creation of the free trade zone was agreed to in February 1993, but negotiations were suspended in May 1995 due to disagreements over rules of origin, agricultural sector, and tariff liberalization schedule.

## 13. Caribbean Community and Common Market (CARICOM)

***Membership:*** Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.[a]
***Type:*** Customs union; eventual common market.
***Trade significance:*** Total intragroup trade, $721 million; CARICOM imports from the US, $3.3 billion, 42 percent of total imports; US imports from CARICOM, $2.2 billion. Exports to the US equal 37 percent of total CARICOM exports.[b]
***Objective:*** Phased common external tariff of 0-20 percent on most goods by January 1998; removal of intraregional trade barriers; common currency and monetary integration.
***Status:*** Founded 1973 (superseded Caribbean Free Trade Agreement, CARIFTA). GATT Working Party review completed March 1977.
***Implementation record:*** CARICOM summit in October 1992 set common external tariff of 0-20 percent by 1998 on most manufactured products and 40 percent on primary agricultural products. Belize will participate under delayed implementation schedule. Suriname joined CARICOM in July 1995.

[a] The Bahamas belong to CARICOM's political community but are not part of the common market.
[b] Figures do not include Montserrat.

## 14. Mexico–Central America Free Trade Agreement

***Membership:*** Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Nicaragua.
***Type:*** Free trade area.
***Trade significance:*** Central American imports from Mexico, $542 million, 4 percent of total imports; Mexican imports from Central America, $101 million, 0.2 percent of total imports.
***Objective:*** Elimination of tariff barriers by 1997 with Central American countries to be granted duty-free access to Mexico three years before they must reciprocate.
***Status:*** Framework agreement signed in August 1992, setting terms for future bilateral accords. Mexico and Costa Rica implemented a bilateral FTA in January 1995, although all tariffs will not be eliminated before 2005. Haggling over agricultural exemptions and Mexico's peso crisis disrupted negotiations last year with the other four Central American countries, but talks resumed in May 1996.

## 15. Chile-Mexico Free Trade Agreement

***Type:*** Free trade area.
***Trade significance:*** Chilean imports from Mexico, $358 million, 2 percent of total imports; Mexican imports from Chile, $202 million; 0.3 percent of total imports.
***Objective:*** Promotion of bilateral trade and investment; elimination of tariffs on 90 percent of traded items by 1995; tariffs on synthetic textiles, glass, ceramics, meat, poultry, eggs, and some timber products to be phased out by 1998; reduction of tariffs on motor vehicles beginning in 1996; harmonization of tax and investment rules.
***Status:*** Economic Complementarity Agreement signed September 1991.
***Implementation record:*** Agreement went into effect January 1992. Tariffs on nearly all products were gradually reduced and eliminated in January 1996. Tariffs on 181 other products were reduced from 6 to 4 percent in January 1996 and will be abolished in 1998. Approximately 100 products are excluded from tariff cuts, including sugar, tobacco, and petroleum products. Some liberalization covering investment, services, and intellectual property.

## 16. Caribbean-Canadian Common Market (CARIBCAN)

***Membership:*** Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, and the British Caribbean Dependencies.
***Type:*** Preferential trade arrangement.
***Trade significance:*** Caribbean imports from Canada, $217 million, 2 percent of total imports; Canadian imports from Caribbean, $329 million, 0.2 percent of total imports. Caribbean exports to Canada equal 5 percent of total exports.[a]
***Objective:*** Trade, investment, and industrial cooperation with Caribbean Commonwealth countries; promotion of Canadian investment in region.
***Status:*** Established 1986; current GATT waiver valid through mid-1998, subject to biennial review.
***Implementation record:*** Canadian duties eliminated on all products imported from CARIBCAN beneficiaries (60-percent local content required) except clothing, footwear, leather garments, lubricating oils, and methanol.

[a] Figures do not include the British Dependencies.

## 17. Venezuela-CARICOM Trade Agreement

***Membership:*** Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Venezuela.
***Type:*** Preferential trade arrangement.
***Trade significance:*** CARICOM imports from Venezuela, $428 million, 6 percent of total imports; Venezuelan imports from CARICOM, $49 million, 0.5 percent of total imports. CARICOM exports to Venezuela equal 1 percent of total exports.[a]
***Objective:*** Duty-free treatment of CARICOM exports to Venezuela of spices and certain manufactured products; five-year phased reduction of duties on certain agricultural products, apparel, and some other manufactured goods. No reduction in Venezuelan tariffs on beef, milk, rice, coffee, tropical oils, cement, televisions, and some iron and steel products. Existing CARICOM quantitative restrictions on imports from Venezuela to be capped at present levels, tariffs applied at MFN rates.
***Status:*** Agreement signed October 1992. Caracas has been under pressure from Venezuela's private sector to amend agreement in order to receive reciprocal trade and investment benefits, but has not yet moved on that front.

[a] Figures do not include Montserrat.

## 18. Bolivia–Southern Cone Common Market (MERCOSUR) Trade Agreement

***Type***: Preferential trade arrangement.
***Trade significance***: Bolivian imports from MERCOSUR, $311.8 million, 22 percent of total imports; MERCOSUR imports from Bolivia, $58 million, 0.1 percent of total imports.
***Objective:*** First step toward negotiating a free trade area. The agreement replaces and harmonizes previous bilateral preferential trade treaties with Argentina, Brazil, Uruguay, and Paraguay.
***Status:*** Signed December 1995. Starting 1 January 1996, MERCOSUR members gave more than 1,000 Bolivian products the same duty-free access or low tariffs; Bolivia gave preferential treatment to some 900 MERCOSUR exports. The establishment of uniform duties led to new preferential treatment for some goods in some countries.

## 19. Chile-Ecuador Free Trade Agreement

***Type:*** Free trade area.
***Trade significance:*** Chilean imports from Ecuador, $210 million, 1 percent of total imports; Ecuadorian imports from Chile, $113 million, 3 percent of total imports.

*Objective:* Elimination of tariffs on most traded items by 1998.
*Status:* Agreement signed in December 1994; went into effect January 1995.

## 20. Chile-Colombia Free Trade Agreement

*Type:* Free trade area.
*Trade significance:* Chilean imports from Colombia, $139 million, 1 percent of total imports; Colombian imports from Chile, $170 million, 1 percent of total imports.
*Objective:* Tariff elimination on 70 percent of exports in three phases over five-year period.
*Status:* Partial agreement signed December 1993; tariffs on 40 percent of exports eliminated under first phase January 1994.

## 21. Chile-Venezuela Free Trade Agreement

*Type:* Free trade area.
*Trade significance:* Chilean imports from Venezuela, $201 million, 1 percent of total imports; Venezuelan imports from Chile, $92 million, 1 percent of total imports.
*Objective:* Elimination of tariffs on most traded items by 1997.
*Status:* Negotiations began March 1991. Signed April 1993, went into effect July 1993.

## 22. Colombia-CARICOM Trade Agreement

*Membership:* Antigua and Barbuda, Barbados, Belize, Colombia, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago.
*Type:* Free trade area.
*Trade significance:* CARICOM imports from Colombia, $17 million, 0.2 percent of total imports; Colombian imports from CARICOM, $62 million, 0.5 percent of total imports. CARICOM exports to Colombia equal 1 percent of total CARICOM exports.[a]
*Objective:* The free trade agreement will be implemented in three stages. Colombia initially eliminated duties on goods comprising 86 percent of current imports from CARICOM. It will gradually dismantle tariffs on an additional 4 percent of traded goods by January 1998, after which the two sides will negotiate liberalization of the remaining Colombian tariffs and the trade concessions that Colombia will receive from the largest CARICOM countries—Jamaica, Trinidad and Tobago, Barbados, and Guyana. Other CARICOM members will not be required to grant reciprocity to Colombia. Liberalization of services and bilateral investment are to be covered in future negotiations.
*Status:* Signed July 1994.

[a] Figures do not include Montserrat.

## 23. Organization of East Caribbean States (OECS)

*Membership:* Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
*Type:* Customs union.
*Trade significance:* Total intragroup trade, $10.8 million; imports from the US, $368 million, 32 percent of total imports; US imports from OECS, $82 million. OECS exports to the US equal 18 percent of total OECS exports.[a]
*Objective:* Accelerated implementation of CARICOM common external tariff; phased removal of quantitative restrictions on all intraregional imports.
*Status:* Founded 1981 as subregional group of CARICOM; no GATT review.
*Implementation record:* All members except Antigua and Barbuda and Montserrat have implemented common external tariff.

[a] Figures do not include Montserrat.

## 24. Bolivia-Mexico Free Trade Agreement

*Type:* Free trade area.
*Trade significance:* Bolivian imports from Mexico, $20 million, 1 percent of total imports; Mexican imports from Bolivia, $1 million, less than 0.01 percent of total imports.
*Objective:* Elimination of tariffs on most traded items by 2005.
*Status:* Signed October 1994; went into effect January 1995.

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# Clinton to Delay Fast-Track Trade Bill Until Fall

By ROBERT S. GREENBERGER
*Staff Reporter of* THE WALL STREET JOURNAL

WASHINGTON—President Clinton has decided to wait until September before sending Congress legislation that would permit the administration to negotiate future trade deals.

The administration is trying to get congressional leaders to guarantee a vote this fall. White House Chief of Staff Erskine Bowles met with the leadership yesterday to discuss timing and plans another session today.

The postponement is sure to anger Latin nations, such as Chile, that have been waiting impatiently for President Clinton to make good on his December 1994 promise to expand a free trade zone beyond the U.S., Mexico and Canada to cover the entire hemisphere.

U.S. officials say that the White House has concluded that there is too much on the legislative plate – tax legislation, budget issues and an expected divisive debate this summer over renewal of China's trade status – to move sooner on the fast-track measure. Some administration officials, including U.S. Trade Representative Charlene Barshefsky, had been urging Mr. Clinton to move ahead in June with the measure.

But an administration official said that, in addition to the press of legislative business, more time is needed to develop and launch a public-relations campaign for support of the measure on Capitol Hill and among the public. The administration's central argument will be that free trade agreements are essential to creating more higher-paying jobs and keeping the economy growing.

Some congressional Republicans said the delay could jeopardize the administration's hopes for passage this year. One GOP staffer who follows trade issues said that by the time the House finishes work on a fast-track bill this fall, it would be too late for the Senate to act this year. And because 1998 is an election year, it will be more difficult to pass controversial legislation.

Indeed, the fast-track trade issue is embedded in domestic politics. At the core is whether to include labor and environmental standards in the legislation. Recently, the administration has floated a proposal on Capitol Hill under which it would consider dropping labor and environmental objectives from the measure, and deal with them in side agreements. But that would anger organized labor, which strongly supported Mr. Clinton's re-election, and provoke a fight with House Minority Leader Rep. Richard Gephardt of Missouri, a potential rival of Vice President Gore's for the Democratic presidential nomination in 2000. Mr. Gephardt has indicated that he won't support the legislation if it doesn't contain the standards.

Administration officials have said they must bow to the realities of a GOP-led Congress. Most Republicans adamantly oppose including labor and environmental standards in trade pacts. And because so many pro-labor Democrats don't like trade agreements and won't vote for them, the White House must appeal to Republicans to get a bill passed.

Lack of fast-track authority already is having an impact among Washington's trading partners in Latin America. In a meeting of 34 trade ministers last week in Brazil, Brazilian officials, along with some others, pointed to the Clinton administration's inability to win approval of fast track as a main reason for their reluctance to move quickly into regional trade talks aimed at creating a common market.

*—Hilary Stout contributed to this article.*

# Farmers' Participation In Conservation Effort Is Allocated for Year

*By a* WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – The Clinton administration will pay farmers more than $636 million a year to idle 16.1 million acres of cropland and instead enroll the land in the nation's conservation reserve program.

Under 10-year to 15-year contracts with the Agriculture Department, farmers will be paid nearly $40 an acre annually not to grow crops on an area roughly the size of West Virginia. Much of the land being enrolled is environmentally fragile, including erosion-prone hillsides, riverbanks and wildlife habitat.

The conservation reserve has long been operated as a supply-management program to reduce crop surpluses and prop up commodity prices. But under the 1996 farm law, the Agriculture Department has been emphasizing conservation. The policy change has been highly controversial, pitting environmentalists and some farm groups against grain exporters and other agribusiness leaders who favor boosting crop production and exports.

Nearly 33 million acres are enrolled in the reserve. Congress has authorized a total enrollment of 36 million acres. At the end of September, contracts on 21.2 million acres will expire. Enrollment of 16.1 million acres will put the total acreage at 27.8 million in October.

Thousands of contract holders were disappointed that their land wasn't re-enrolled. "The administration has broken faith with American agriculture," said Republican Sen. Pat Roberts of Kansas.

House Agriculture Committee Chairman Bob Smith said he was "absolutely shocked" that about 100,000 farmers had been rebuffed. Agriculture Secretary Dan Glickman said they would have another opportunity next year.

# *U.S. to Bar Some Imports From Certain Asian Firms*

*By a* WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – The Clinton administration said it will bar imports for at least a year from two Chinese companies, five Chinese citizens and a Hong Kong company suspected of providing Iran with chemical-weapons technology.

Secretary of State Madeleine Albright told a Senate Appropriations panel that there is no evidence the Chinese or Hong Kong governments were involved. The sanctions were imposed under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991, which authorizes the administration to punish entities that knowingly transfer biological weapons to countries that support terrorism.

The Chinese Embassy in Washington had no immediate comment.

"The U.S. has been raising its concerns about the actions of Chinese firms and individuals with the Chinese government for some time," State Department spokesman Nicholas Burns said.

The sanctions apply to Nanjing Chemical Industries Group and Jiangsu Yongli Chemical Engineering & Technology Corp. of China, Cheong Lee Ltd. of Hong Kong, Liao Minglong, Tian Yi, Chen Qingchang, Pan Yongming and Shao Xingsheng.

# *Unemployment Claims Increased Last Week*

*By a* WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—Initial claims for state unemployment benefits rose 5,000 last week to a seasonally adjusted 322,000, the Labor Department said.

The rise made up some of the previous week's 31,000 drop, which had been skewed by auto strikes and flooding. The four-week moving average for claims – a key barometer of labor-market conditions since it smoothes out weekly fluctuations – rose 750 to 333,250. Analysts said this level, though just slightly below the 15-week high, is still consistent with a relatively tight labor market.

# lrcher Faces Daunting Task in Divvying Up Tax Cuts

By JACKIE CALMES
And GREG HITT
'f Reporters of THE WALL STREET JOURNAL

VASHINGTON – As the House's tax .rman, Bill Archer fought hard to keep balanced-budget pact mostly free of ıils on tax cuts, so he would be free to n the blanks.

ᐧow his real struggles begin.

\s the Ways and Means Committee ıns to write the tax cuts into law next month, the Texas Republican must shoehorn in a GOP wish list that is twice as costly as the tax-cut limit set in the budget accord between President Clinton and Congress's GOP leaders. Moreover, the avidly antitax chairman says it will be "exceedingly difficult, if not impossible" to raise billion in other taxes, as proposed in ɔudget, to offset the tax cuts' cost. That ns taxes can be cut even less. When ·r GOP leaders call for closing corpo- loopholes, Mr. Archer focuses on : a break for ethanol makers that's ılar with farm-state Republicans but with Mr. Archer's home-state oil pro- ːrs.

Bill Archer

### thmetic Reality

\lready he's drawn the ire of both GOP ːers and the Clinton administration. At meeting of House leaders, with Mr. her absent, House Speaker Newt Ginh snapped that he could be stripped of ːhair. Another time, the Speaker baited : With all the tax breaks born under ner Democratic Chairman Dan Rostenski, couldn't Mr. Archer find some to ːal? Then last week, Mr. Gingrich ıed out before a full caucus of House ublicans. Witnesses say Mr. Archer just warned the lawmakers to lower r expectations, given the difficulty of ing revenues and cramming tax cuts the agreed-upon limit. Mr. Gingrich ›bed the microphone: Why focus on the ıtive? he asked. Just do it.

Mr. Archer now says he was just reting "an arithmetic reality." He adds, ıe more that we face reality going in, happier people are going to be coming

Despite White House efforts, led by asury Secretary Robert Rubin, to pin ·n as many tax-cut specifics as possible, ? leaders–sensitive to Mr. Archer–a- ːd to few: The budget accord limits cuts to a net $85 billion over five years, $250 billion over 10 years. Tax cuts can ːh a gross $135 billion, but only if the $50 on in revenue-raisers can be found. ·ughly" $35 billion in tax cuts go to the sort of breaks Mr. Clinton wants for college and job-training costs. The pact suggests other taxes to cut, but leaves the fine print to the tax-writers.

"He got what he wanted, which was a blank slate," says Rep. Robert Matsui, a California Democrat on the committee. Even a letter to Mr. Clinton from Mr. Gingrich and Senate Majority Leader Trent Lott, which put the education commitment in writing, isn't binding, Mr. Matsui says.

But a blank slate leaves it to Mr. Archer to figure out how to fit capital gains and estate-tax relief, a $500-a-child income-tax credit and sweetened incentives for Individual Retirement Accounts, among others, into one limited bill. Losers will be many and even some winners will be shortchanged. "Everyone is expecting more rather than less," says GOP Rep. Fred Upton of Michigan.

### Big Test for Archer

The tax bill is widely seen as Mr. Archer's first big test since becoming chairman two years ago. He bristled this week when reporters, quoting his colleagues, suggested as much. But, in fact, the last Congress's record on taxes, welfare and Medicare, all issues under the Archer panel's sway, was dictated by Speaker Gingrich as the GOP pursued its Contract with America.

The 69-year-old Mr. Archer reflects the lot of House GOP chairmen generally. After languishing for years in the minority, they catapulted into leadership when Republicans finally took over in 1995, only to see the younger Mr. Gingrich call the shots. This year, GOP leaders have promised the chairmen more power. But tension persists, exacerbated by a budget accord that puts limits on the committees.

A big part of Mr. Archer's challenge relates to his refusal to raise taxes on business. That was one of the routes eyed by House Budget Committee Chairman John Kasich (R., Ohio). "We're going to close a bunch of these loopholes that the lobbyists got over the years," Mr. Kasich said on CNN Sunday. But as Mr. Kasich knows, Mr. Archer has no such plans. The tax-writer says he can't raise the $50 billion in revenue, even though $32 billion is available simply from extending an existing airline-ticket tax. "You are perceived as raising taxes on one group in order to give tax reductions to another," he says.

### Shrinking Tax Cuts

As the Republican Congress squeezes tax cuts to fit within the budget pact's limit, here are some ways it may shave the revenue cost:

**$500-a-child tax credit**
- Phase in from lower amount, say $300
- Exclude teenagers
- Reduce income threshold for qualifying families

**Capital-gains tax cuts**
- Limit rate cut
- Claim more revenues from asset selloffs when new rate takes effect
- Delay indexing for inflation

**Estate-tax cuts**
- Limit increase in $600,000 exemption
- Phase in increased exemption
- Limit break to family-owned businesses and farms

**IRAs**
- Defer costs with plans that have tax breaks at withdrawal, not up front
- Tax savers who transfer from old accounts to new ones

### $40 Billion Goal

Mr. Archer's goal is to raise about $8 billion more, for a $40 billion total. But that means the pot for tax cuts can grow to just $125 billion, not $135 billion.

Mr. Archer wants to repeal the tax break for the grain-based ethanol. Though Mr. Gingrich forced him to drop the idea in 1995, Mr. Archer sees an opening now that Kansas Sen. Robert Dole has retired. But other farm-state Republicans, some on his committee, are poised to stop him.

The White House and GOP leaders agreed that a tax bill can't target a tax credit for low-income housing developers or an earned-income tax credit for the working poor to pay for tax cuts, as Mr. Archer tried in the past Congress. He may try again to tax Indians' gambling proceeds. Mr. Archer objects that the tribes pose untaxed competition to commercial gaming interests, but politics also plays a role. A 1995 committee memo includes among the "facts" justifying the tax the contributions to Democrats by Connecticut's tiny Mashantucket Pequot tribe.

Mr. Archer's role in the talks that gave rise to the budget deal was minimal, though he and his Senate GOP counterpart, Finance Committee Chairman Bill Roth of Delaware, were consulted by the Republican budget chairmen, Mr. Kasich and Sen. Pete Domenici of New Mexico. Mr. Archer says he stayed aloof to preserve his flexibility.

### Chairman Serves Notice

For one session on taxes in early April, Mr. Archer and Mr. Roth joined the GOP negotiators, along with Mr. Rubin and White House budget director Frank Raines. Mr. Archer served notice then that he didn't want to be bound by specifics, and that he couldn't raise more than $5 billion beyond the ticket tax to offset the cost of tax cuts.

Then, the weekend before a tentative pact was announced on May 2, GOP leaders sought out Mr. Archer as White House officials made a last stab at pinning down some details. Administration officials feared that otherwise Mr. Archer and Mr. Roth would write tax cuts in a way that caused their costs to balloon. But Mr. Archer declined the entreaties to get involved, and exasperated GOP leaders reckoned that he had forfeited his right to attack the final pact.

To the contrary, Mr. Archer publicly questioned the White House claim to $35 billion for education tax breaks. White House officials were incredulous, citing both their own recollections of assurances from GOP leaders Gingrich and Lott, and White House Chief of Staff Erskine Bowles's painstaking notes of meetings on Mr. Gingrich's Capitol balcony. Republican leaders didn't publicly contradict Mr. Archer; privately they did. Finally, the GOP leaders put a commitment to the education tax breaks in writing.

For his part, Mr. Archer says he spoke with Mr. Clinton–before and after the deal was announced – warning that too many specifics might actually jeopardize the pact, but emphasizing his sensitivity to White House concerns. "I said I was looking forward to working with him," Mr. Archer recalls, "and that I understand that in the end it would have to be a bill that he could sign into law."

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mind, the treaty signed at Windhoek, Namibia, in August 1992 transformed the SADCC into the SADC, through which members were to seek integration in a number of areas leading up to a full-fledged common market. Although most details of the new organization were left to subsequent negotiations, the SADC members agreed to concentrate for the short term on joint infrastructure development, coordination of investment procedures, and establishment of regional production policies. Arrangements for the free movement of goods, capital, and labor among members were to be made at an as yet undetermined date. The most ardent SADC integrationists also suggested that the Community might also eventually pursue political union, perhaps through a regional parliament, and security coordination.

One immediate concern for the SADC was its relationship with the Preferential Trade Area for Eastern and Southern African States (PTA, see separate article), established in 1981 with many of the same goals as those adopted by the SADC. With eight of the (then) ten SADC members also belonging to the PTA (Botswana and Zambia being the exceptions), the PTA in late 1992 called for a merger of the two organizations. Not surprisingly, the SADC Secretariat opposed the proposal and at a January 1993 meeting the SADC, reportedly concerned over the PTA's history of ineffectiveness, rejected the overture. However, the SADC subsequently indicated it would attempt not to duplicate PTA activities, suggesting that the PTA could assume full responsibility for economic cooperation among the eleven "northern" or non-SADC countries with the SADC doing the same for its members.

In one of a summer-long series of remarkable international events precipitated by the democratic transition in Pretoria, the SADC accepted South Africa as its eleventh member at a summit held at Gaborone in late August 1994. While welcoming South Africa to their ranks, the other SADC members reportedly expresed concern that they might be overwhelmed by its economic might. The summit also began to weigh greater security responsibilities, addressing such proposals as the creation of a mechanism for the peaceful resolution of conflicts among members and the establishment of regional peacekeeping and defense forces. Thus, the SADC defense ministers in November endorsed the formation of a "regional deployment force", which would not be a permanent army but one available for quick mobilization from national armies. Details of the plan remained vague, however, and the SADC indicated a willingness to defer to the Organization of African Unity (OAU) should the OAU's plans in this area materialize.

Meanwhile, the dominant concern for the SADC in 1995 remained the "dual membership" problem regarding the PTA, an issue further complicated by the recent signing of a treaty establishing the Common Market of Eastern and Southern Africa (Comesa – see PTA article). Although most SADC members signed the treaty, several have postponed ratification while South Africa and Botswana have indicated their lack of interest in the alignment. Consequently, the SADC summit held on August 28 at Johannesburg, South Africa, called for an immediate joint summit between the SADC and PTA/Comesa to resolve the matter. Meanwhile, SADC leaders endorsed the proposed elimination of trade barriers between SADC members and the establishment of a common SADC currency by 2000. The summit also signed a protocol for cooperation in water management and launched negotiations on similar protocols in the areas of tourism and energy.

# SOUTHERN CONE COMMON MARKET (MERCOSUR/MERCOSUL)

*Mercado Común del Cono Sur/*
*Mercado Comum de Cone Sul*

**Established:** By treaty signed on March 26, 1991, at Asunción, Paraguay, by the presidents of Argentina, Brazil, Paraguay, and Uruguay.

**Purpose:** To establish a regional common market through the harmonization of policies in agriculture, industry, finance, transportation, and other sectors; to promote economic development through expanded extra-regional trade and the pursuit of foreign investment.

**Headquarters:** Montevideo, Uruguay.

**Principal Organs:** Council of the Common Market; Secretariat.

**Membership (4):** Argentina, Brazil, Paraguay, Uruguay.

**Official Languages:** Portuguese, Spanish.

**Origin and development.** The idea of a regional common market was first advanced in the late 1980s by Argentina and Brazil, who had recently signed a series of bilateral agreements which they hoped could be extended to other countries. Supporters of the concept also argued that a regional bloc would be helpful in taking advantage of the Enterprise for the Americas Initiative recently announced by (then) US President Bush. Paraguay and Uruguay responded positively to the integration overtures from their larger neighbors, but Chile, expressing concern about the volatility of Brazil's economy, declined to join the grouping, at least for the time being.

In December 1990 the scheduled signing of a proposed common market treaty was postponed as negotiations continued on how to compensate for the two-year lead in integration by Argentina and Brazil and lessen the potential for their economies to overwhelm the smaller members. However, after agreement was reached to permit Paraguay and Uruguay to proceed at a slower pace in implementing some tariff provisions, the Treaty of Asunción (Paraguay) was signed on March 26, 1991, with ratification by the members' legislatures being completed by September. Membership discussions continued thereafter with Bolivia and Chile, one proposal being that they be given associate status pending expiration of a five-year moratorium on new memberships. Bolivia's eligibility is also complicated by its participation in the Andean Group, since the Asunción Treaty forbids dual regional affiliations. Bolivia was accorded observer status in January 1994 "with a view to future total participation". Meanwhile, Chilean officials have been pursuing possible duty-free trade with Mercosur countries that would not affect Chilean tariffs on products from other nations.

**Structure.** The Council of the Common Market, composed of members' foreign and economic ministers, is responsible for policy decisions while an administrative secretariat, assisted by a number of technical committees, was established at Montevideo, Uruguay, in 1992. A Mercosur trade commission is slated to be opened at Buenos Aires, Argentina, while disputes over intraregional free trade provisions will be referred to a new arbitration tribunal at Ascunión, Paraguay. The 1991 Asunción Treaty also provides for the eventual creation of a Mercosur Parliament modeled after the European Parliament, although no subsequent activity in that regard has been reported.

**Activities.** Although negotiations during Mercosur's first year of existence on a proposed common external tariff were unproductive, significant progress was achieved in reducing intraregional tariffs. By the end of 1992 annual intraregional trade had jumped by an estimated 50 percent, although a substantial portion of the increase resulted from an "avalanche" of Brazilian goods into Argentina. With the benefits of integration already accruing, the December Mercosur summit accepted further cuts in intraregional tariffs and endorsed study of the possible creation of a regional currency unit. Potential regional military cooperation was also discussed at a June 1993 summit although that issue subsequently appeared to recede among Mercosur priorities.

At their fifth summit, held January 17, 1994, at Montevideo, Uruguay, the Mercosur heads of state again expressed their confidence in the common market's future. No immediate progress was reported on what had become the major sticking point in Mercosur negotiations – a common external tariff. With Brazil apparently standing firm in its demand for substantial tariffs on products such as computers, telecommunications equipment, and petrochemicals, some negotiators predicted that external tariff arrangements could not be completed by the January 1, 1995, target date. However, intensive negotiations later in the year yielded sufficient agreement for the Mercosur presidents to sign a Protocol of Ouro Prêto at Ouro Prêto, Brazil, on December 17 providing for the launching of the intraregional free trade zone and common external tariff on January 1. It was reported that free trade within Mercosur was established for about 80 percent of the products under consideration. Intraregional tariffs on most of the others were scheduled to decline to zero within four years, Argentina. Following the termination of hostilities on June 14, efforts to resolve the sovereignty issue continued through UN channels.

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Subsequently, the Organization entered a period of scandal, rifts between members, and charges of ineffectiveness. The situation in Central America continued to be contentious, with Nicaragua and the United States sparring within the Organization as well as at the United Nations. The conflict reflected a deeper cleavage that had developed between the US and English-speaking Caribbean members and the bulk of the Central and Latin American members—a rift that widened following the Grenadian intervention of October 1983. A majority of members attending a special OAS session on October 26 condemned the action, with the United States and its Caribbean allies countering that, as an effort to resolve a condition of anarchy, it did not violate the Rio treaty.

Further shock came with the unexpected resignation of Secretary General Alejandro Orfila during the November 1983 Assembly. Orfila's resignation, effective March 31, 1984, was officially attributed to his dissatisfaction over the role of the Organization in regional problems and the limited powers of the secretary general. However, in early April 1984 it was revealed that Orfila had accepted outside wages in violation of his OAS contract and that he and other officials had made questionable use of OAS discretionary funds and contracts. Following an investigation, the Council on April 12 unanimously passed a motion of censure against Orfila.

A special foreign ministers' meeting convened at Cartagena, Colombia, on December 2, 1985, to consider proposed amendments to the OAS charter. The resulting Protocol of Cartagena, which entered into force in November 1988, modified admission rules to permit the entry of Belize and Guyana (theretofore ineligible because of territorial disputes with OAS members Guatemala and Venezuela, respectively). Under the new criteria, all regional states that were members of the United Nations as of December 10, 1985, plus specified nonautonomous territories (Bermuda, French Guiana, Guadaloupe, Martinique, and Montserrat, but not the Falkland/Malvinas Islands) would be permitted to apply. The Protocol also increased the authority of the secretary general, permitting him, on its own initiative, to bring to the attention of the Assembly any matter which "could affect the peace and security of the continent and development of its member countries". Finally, the Permanent Council was authorized to provide peacekeeping services to help ameliorate regional crises.

Despite initial opposition from the United States, the OAS played an active role in the Central American peace negotiations initiated by former Costa Rican president Oscar Arias. Although progress in the talks was a primary topic at the 1987 General Assembly, attention also focused on an "extremely grave" financial crisis stemming from shortfalls in budgetary contributions for the previous three years. In early 1988 OAS officials reported that, despite a 25 percent cutback in staff size, the ongoing fiscal crisis threatened the future of the Organization. At the time of the November General Assembly total arrears were reported to be $46 million, of which the United States owed $31 million. With only one-third of the $66 million 1988 budget thus far collected, the Assembly endorsed $12.5 million in further staff cuts and program reductions. In other activity at the meeting, Secretary General João Baena Soares, who has been a prominent participant in the Central American peace talks, was elected unopposed for a second five-year term.

The OAS foreign ministers met in emergency session on May 17, 1989, to discuss the situation in Panama, establishing a four-member team to conduct negotiations with Panamanian leader Gen. Manuel Noriega in the hope of achieving a transition to democratic government. Despite several months of effort, however, the OAS was unable to persuade Noriega to relinquish power and could only call for free elections "within the shortest possible time". Despite the diplomatic failure, 20 OAS members approved a resolution in December which "deeply deplored" the US invasion of Panama and called for the immediate withdrawal of US troops.

During its June 1991 General Assembly the Organization adopted a resolution requiring an emergency meeting of the body within ten days of a coup in any member country. The resolution reflected the fact that for the first time in OAS history all of its active members were controlled by democratically elected governments. Some observers hailed the plan, which was advanced by the Andean Group countries, as a major step in countering charges that the OAU was unable to undertake substantive action.

The first test of the Santiago Declaration was the military overthrow of the Haitian government of Fr. Jean-Bertrand Aristide on September 30, 1991. In a draft resolution issued on October 6 the Organization called for a trade embargo of the new regime, freezing of Haitian assets worldwide, and isolation of the military government. Even stronger measures were adopted in May 1992 to bring about Aristide's reinstallation, including denial of port rights to ships breaking the trade embargo, a request that the European Community join the boycott, and the rejection of visa applications from coup supporters.

Haiti remained a focus of attention throughout the next year, OAS observers attempting to monitor the human rights situation in that nation as UN negotiations continued. The OAS also met in special sessions to address the "self-coups" in Peru in 1992 and in Guatemala in May 1993, condemning both events but rejecting any specific action.

Still trying to counter criticism of OAS "inefficiency and passivity", the General Assembly adopted the Managua Declaration for the Promotion of Democracy and Development during its June 1993 session. Although some observers described the document as maintaining the Organization's penchant for "rhetoric over substance", the Declaration established (subject to ratification by member states) an inter-American council to coordinate a regional antipoverty program. It also committed the OAS to additional negotiations on ways to "institutionalize" its pro-democracy emphasis by, among other things, creating a fund for emergency missions.

In March 1994 (then) Colombian President César Gaviria Trujillo was elected to succeed OAS Secretary General Baena Soares, who was retiring after two terms. Gaviria, who had entered the race only one month before, outpolled Costa Rican Foreign Minister Bernd Niehaus, the early favorite for the post, by a vote of 20-14. Niehaus, initially supported by most island states and other small Latin American nations, criticized OAS members for having capitulated to the desires of the United States in the election. In any event, at his installation in August (following the expiration of his presidential term) Secretary General Gaviria pledged to pursue establishment of a free trade zone covering the entire Western hemisphere, to promote regional measures against drug trafficking, and to intensify OAS efforts to combat human rights violations in the region.

The other major OAS concern in the first half of 1994 was Washington's preparation for a possible invasion of Haiti as diplomatic measures and economic sanctions failed to sway the Haitian military leaders. The OAS General Assembly in June endorsed a tightening of sanctions but took no position on the use of military force, several leading members having argued against such intervention. Consequently, Washington looked to the United Nations for international approval of its Haitian policy, the Security Council in late July authorizing "all necessary action", including use of a US-led multinational force to return civilian government to Port-au-Prince.

Attesting to the surprisingly rapid and effective restoration of democracy in that nation, the next OAS summit was held at Montrouis, Haiti, on June 5-9, 1995. Highlighting the session was the adoption of "A New Vision for the OAS", a blueprint for the "rejuvenation" and strengthening of the Organization. Priorities included the new OAS Unit for the Promotion of Democracy, mandated to observe national elections, provide special training for the staffs of national legislatures, create mechanisms to expand the dissemination of information on governmental activities, and establish courses for the armed forces and police in the region regarding the protection of human rights. Other areas specified for OAS emphasis were environmental preservation, cultural cooperation, and programs to combat corruption and drug trafficking.

Although some of the language within the "Montrouis Declaration" echoed that of many previous unimplemented pledges, observers suggested that the OAS was in its best position ever to make genuine progress toward its stated goals. In part, that assessment reflected the "leading role" assigned to the OAS by the Summit of the Americas, which had been held on December 9-11, 1994 at Miami, Florida. The 33 heads of government or state invited to the session by US President Bill Clinton had, among other things, asked the OAS, in conjunction with the Inter-American Development Bank, to oversee proposed steps toward creation of a Free Trade Area of the Americas by 2005.

Conspicuously absent from the Miami Summit was Cuba, the US administration insisting upon democratic elections in that country before considering it eligible for reintegration into regional activity. However, the rest of the OAS appeared at odds with Washington on the issue, Secretary General Gaviria pointedly calling for Cuba's return to the OAS fold as a means of eliminating "the last vestige of the Cold War", which had precipitated such turmoil for the region.