S. Hrg. 102-232

# ENTERPRISE FOR THE AMERICAS INITIATIVE RELATED TO EXTENSION OF FAST-TRACK AUTHORITY

## HEARING

BEFORE THE

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

APRIL 24, 1991

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
45-778 WASHINGTON : 1991

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-035729-2

## COMMITTEE ON FINANCE

LLOYD BENTSEN, Texas, *Chairman*

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
DAVID L. BOREN, Oklahoma
BILL BRADLEY, New Jersey
GEORGE J. MITCHELL, Maine
DAVID PRYOR, Arkansas
DONALD W. RIEGLE, Jr., Michigan
JOHN D. ROCKEFELLER IV, West Virginia
TOM DASCHLE, South Dakota
JOHN BREAUX, Louisiana

BOB PACKWOOD, Oregon
BOB DOLE, Kansas
WILLIAM V. ROTH, Jr., Delaware
JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
DAVE DURENBERGER, Minnesota
STEVE SYMMS, Idaho
CHARLES E. GRASSLEY, Iowa

VANDA B. McMURTRY, *Staff Director and Chief Counsel*
EDMUND J. MIHALSKI, *Minority Chief of Staff*

# CONTENTS

## OPENING STATEMENTS



## COMMITTEE PRESS RELEASE



## ADMINISTRATION WITNESSES



## ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED



## COMMUNICATIONS

# ENTERPRISE FOR THE AMERICAS INITIATIVE RELATED TO EXTENSION OF FAST-TRACK AUTHORITY

**WEDNESDAY, APRIL 24, 1991**

U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, DC.*

The hearing was convened, pursuant to notice, at 10:30 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Bradley, Durenberger, Symms, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-15, April 18, 1991]

SENATOR BENTSEN ANNOUNCES HEARING ON ENTERPRISE FOR THE AMERICAS INITIATIVE RELATED TO EXTENSION OF FAST-TRACK AUTHORITY

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Finance Committee, Thursday announced a hearing on the Enterprise for the Americas Initiative and its connection to the President's request for an extension of fast-track negotiating authority.

The hearing will be *Wednesday, April 24, 1991 at 10 a.m. in Room SD-215 of the Dirksen Senate Office Building.*

"Last June the President announced a new program—the Enterprise for the Americas Initiative—that could have far-reaching consequences for our trade policy. He set out an ambitious plan that includes the long-term goal of a hemisphere-wide free trade zone, along with programs aimed at reducing official debt and reforming investment regimes in Latin America," said Bentsen (D., Texas).

"The President has stated that extension of the fast-track legislative procedures would permit him to pursue trade agreements in the next 2 years with Latin American countries under the initiative and encourage reform and liberalization in Latin America," Bentsen said.

"We need to take a close and careful look at this initiative. As the Committee discusses the President's request for an extension of fast-track authority, we need to know how this hemispheric initiative fits into the larger picture. I want to hear the Administration makes its case for how it will benefit the United States' economy. I also want to examine the impact this regional initiative will have on our efforts in the Uruguay Round to reduce trade barriers multilaterally," Bentsen said.

The Enterprise for the Americas Initiative was announced on June 27, 1990. The 101st Congress implemented one of the initiative's debt relief provisions in the Food, Agriculture, Conservation, and Trade Act of 1990. Pending legislation (S. 553) would grant the Administration the remaining authority needed to implement other debt relief and investment aspects of the initiative.

## OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN. This hearing will come to order. Let me apologize to the witnesses, and in turn, to those of you who have come to hear us debate the extension of fast-track negotiating authority for trade agreements; many of the members of this committee are also involved in debate on a serious issue before us on the floor of the Senate. This is the sixth in a series of hearings that we have held in this committee on the question of fast-track negotiating authority.

The President's request covered three types of agreements: the multilateral Uruguay Round negotiations; the proposed North American Free Trade negotiations; and the Enterprise for the Americas.

We have held one hearing on the general question of fast-track negotiations. We have held two hearings on the proposed negotiations with Mexico and Canada, and repeated meetings with the administration concerning it.

Last week, we held 2 days of hearings to review progress in the Uruguay Round of multilateral negotiations. And now we turn our attention to the Enterprise for the Americas.

The President indicated in his March 1st request that an extension of fast-track authority would permit the administration to pursue trade agreements under the Enterprise for the Americas. But the President also indicated that there were very few, if any, Latin American countries that would be ready to negotiate trade agreements with us within the next 2 years. He cited only one possible candidate for a free trade agreement that soon, and that was Chile.

Fast-track authority does not give the administration a blank check. It is the responsibility of the Congress to examine every aspect of the fast-track extension request—including the Enterprise for the Americas—regardless of how many agreements the administration thinks it might negotiate.

And that is why I have called this hearing. The Enterprise for the Americas Initiative deserves some very close scrutiny. It is an ambitious plan. It calls for a long-term goal of a hemisphere free trade zone. It addresses issues that are critical to the economic health of Latin America: investment reform, debt relief.

I am going to be interested in hearing from the witnesses as to the genesis of this kind of an initiative. I want to understand the economic rationale for the Enterprise. I want to try to understand what the foreign policy implications might be. I hope to hear how the Enterprise for the Americas fits in with the other debt and investment programs that are underway in the region—other U.S. Government initiatives and programs that are conducted by institutions that we fund, like the Inter-American Development Bank.

And on the trade side, I want to understand just what the prospects are for free trade agreements with the countries of the region, and how the United States would benefit from such agreements.

I frankly have not studied this proposal of the Enterprise for the Americas because of other pressing concerns before the committee, including the United States-Mexican Free Trade Agreement, and Uruguay Round. But I think one thing is clear: We have an unprecedented window of opportunity to forge closer ties with Latin America to reverse the decade-long decline in major parts of this hemisphere.

Democratic institutions are beginning to take hold in these regions. I think the change in attitude of some of these countries toward us—I was born and lived on that Mexican border—and one of the sayings always down there was, "Poor Mexico, so far from God, so close to the United States." But now a change, where they are talking about being a part of the international competitive system, to open up their markets, privatizing their industries. And as Mexico does that—a nation of some 87 million people that has had some very serious economic problems—but as they go full blown into that, that spill over on those other countries down there is apparent and obvious, and will be encouraging to them, I think, to take on those kinds of initiatives; abandoning some of the protectionist polices that so many of them have had.

I think that the misguided policies of the past have rendered a heavy toll on the United States and Latin America and the relationship of our countries. From 1982 to the present, debt and sagging demand in Latin America has cost the United States—the estimate is $103 billion. That means lost opportunities to U.S. business, and jobs.

There are signs that that is improving somewhat, but it still has a long way to go. I think we have to find a way to help Latin America up by its boot straps, and think that one thing we ought to remember, too, is that we sure will sell a lot more things to countries whose economies are improving, than those that are deteriorating. We are going to increase our exports substantially to those that are raising their standard of living and can afford to buy those things.

I look at what we are selling to Canada per-capita, and it must be at least 10 times as much as what we are selling to Mexico per-capita. But those things can change as the standard of living improves in those countries. So that is why I am pleased to see how far we are going to go in this kind of a situation. I yield to my friend, Senator Baucus.

[The prepared statement of Senator Bentsen appears in the appendix.]

## STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman. I will be very brief. But with the administration here, we have the opportunity to restate the importance of the bargain that the Congress and administration struck in trying to reach successfully concluded trade agreements.

We listened to our constituents, people whom we represent in our States. You meet with, more often than not, people in other countries, that is, your counterparts in other countries. Certainly you meet a lot with Americans, but you also spend a lot of time talking with your counterparts in other countries.

And in our form of government—I do not mean to sound, you know, pedantic here—but in our form of government, we must have this bargain if we are going to successfully conclude trade agreements: in return for a congressional delegation of authority to negotiate an extension of fast track, which I very much support, it is incumbent upon you as negotiators to show to members of the House and the Senate that their legitimate interests are not only being listened to, but are being met.

As we move toward the Enterprise of the Americas, I am concerned that some members of Congress are going to be thinking, well, we are extending fast track for the Uruguay Round, and for the North American Free Trade Agreement, and now also for other countries as well. With all this vast delegation of authority, you know, what is left for us in Congress to do to protect our legitimate interests? And so I urge you to go still the extra mile in meeting with members of Congress so that we can help you in your efforts to reach these agreements.

And when all is said and done—I am going to reserve final judgment as to whether to vote for or against the final agreement. But I do think we should sit down and negotiate. To do that we must secure extension of fast track.

I just urge you to go even further than you have in addressing those legitimate interests of Members of Congress. Thank you.

[The prepared statement of Senator Baucus appears in the appendix.]

The CHAIRMAN. Thank you.

Senator Durenberger.

## STATEMENT OF HON. DAVE DURENBERGER, A U.S. SENATOR FROM MINNESOTA

Senator DURENBERGER. Mr. Chairman, I thank you for continuing this series of hearings on the President's request for extension of fast-track negotiating authority. There are a lot of people in this country, as well as throughout North America who are following this issue more closely, I am sure, than the attendance of our colleagues at some of these hearings would indicate.

I congratulate you, Mr. Chairman, for being positioned by experience, judgment, and constituency with understanding the political need, if you will, for dealing with the issues of a North American free trade agreement. They are incredibly difficult for political reasons, but the political pay-off from doing economic arrangements appropriately, as you understand better than anyone else, far outweighs the interim disadvantages.

During the course of this discussion, I will periodically be raising my concern for the Caribbean Basin Initiative, and for the incorporation of our close neighbors, particularly in the Caribbean, into the discussions of North American free trade. I expressed my concern at the last meeting for getting too bogged down on Mexico, and not realizing that a lot of our political problems arise from economic and social problems in Central America and the Caribbean, as well as in the larger neighbors in South America. I certainly pledge my support to you, Mr. Chairman, for rationalizing our economic relationships with all of our neighbors.

The CHAIRMAN. Thank you.

Senator Grassley.

## STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. Mr. Chairman, two things caught my eye as I reviewed the materials my staff provided me with for this hearing. The first issue was the fund which would provide up to $300 million annually in grants—and in some cases loans—to assist countries in privatizing government-owned industries, in advancing market-oriented investment reforms, in providing technical assistance, and in financing worker training relocation.

The second issue of interest to me was the President's proposal to reduce or restructure the officially owned debt to the U.S. Government owed by the countries in this region.

I had an opportunity to compare these suggestions with a Des Moines Register editorial—and, Mr. Chairman, you know that the Des Moines Register is not parochial, nor is it conservative, nor is it isolationist. The editorial—which was not specifically about today's hearing, but rather about our helping the world generally—said:

> The United States remains the world's largest economy by far, and it has impressive gains in exports in recent years. Despite the current recession, there is no reason for gloom. But there is reason for shoring up U.S. economic foundations. Some basic maintenance was neglected for 40 years during which the United States diverted huge chunks of its wealth into fighting the cold war.
>
> Now, compared to its main economic rivals, the United States wastes the lives of far too many potentially productive people by leaving them in ignorance and poverty. It borrows too much to finance consumption, while not saving and investing enough for the future. It has fostered a corporate culture that cannot take the long view. It has done nothing to reduce vulnerability to oil shocks. It has neglected its infrastructure.
>
> If there is to be a new world order, it will belong to those nations that have taken best care of their economies at home.

Senator GRASSLEY. Mr. Chairman, I think this editorial does an excellent job of reminding each of us of our responsibility to keep this Nation strong not only against a potential enemy outside our borders, but also against the twin deficits of trade and Federal budget within our borders.

While there are a number of attractive illustrations of the reasons why we should expand our trade with Mexico and the rest of Latin America, we should study the implications of these investment and debt reduction programs and how they effect our economy.

Again, Mr. Chairman, I realize this may sound like a parochial view, but it emphasizes America's inability not to help the rest of the world if we are not economically strong at home. Without a doubt, the United States has recently demonstrated its capacity to lead the world politically, as well as militarily.

Now, the real question is whether the United States can complement these achievements with domestic, as well as international, economic leadership. I believe the President is trying to achieve this leadership. We all feel a responsibility to work toward economic leadership, which is why you are holding these hearings. However, I hope we do not lose sight of our overall responsibility to keep our own Nation strong economically. Thank you.

[The prepared statement of Senator Grassley appears in the appendix.]

The CHAIRMAN. Thank you, Senator. Ambassador Katz, we are pleased to have you once again before the committee, and we look forward to hearing from you.

## STATEMENT OF HON. JULIUS L. KATZ, DEPUTY U.S. TRADE REPRESENTATIVE

Ambassador KATZ. Thank you, Mr. Chairman. It is a pleasure to appear before your committee again, and I thank you for the opportunity to present to the committee the trade aspects of the President's Enterprise for the Americas Initiative, and particularly in the context of the committee's consideration of our request for fast-track authority to negotiate trade agreements.

Mr. Chairman, this is a time of change in the Western Hemisphere, and the change is in our direction. Democratically elected Latin American governments are abandoning the statist development models in favor of market-oriented economic policies. Many of the Latin American governments are active participants in the multilateral trade negotiations, and are contributing constructively to those negotiations.

The Enterprise for the Americas seeks to capture this moment, and to pursue the strategic goals of our economic policies in the Western Hemisphere. The initiative consists of policy proposals in three areas: trade, investment, and debt. And the three strategies are interrelated and mutually reinforcing. The prospect of expanded trade opportunities will stimulate new investment. Capital flows responding to investment opportunities will help countries deal with their debt obligations. Reductions in stock of debt will make it easier to attract and finance trade flows.

The trade pillar of the enterprise will, in the long term, increase U.S. exports to Latin America and the Caribbean. It will strengthen the multilateral system. It will strengthen the economies of the region. It will strengthen democracy in the region, and it will help to integrate Latin America and the Caribbean more fully into an interdependent global economy.

The President's speech of June 27 of last year laid out a vision for the Western Hemisphere. The principal strategic goal of this vision is economic growth, and not philanthropy. It is a new and more equal and reciprocal relationship with the countries of the hemisphere. It offers the prospect of economic and political benefits. We will benefit as reform encourages faster growth and progress across a range of social, political, and economic issues.

The President specified two mutually reinforcing trade policy approaches to bring down trade barriers in the Western Hemisphere. The first is the achievement of a successful Uruguay Round agreement. And the second is his vision of a "system of free trade" from Alaska to the southern tip of South America.

Since the President's speech, we have been consulting with members of Congress, with business, labor, and interested groups and with the nations of the hemisphere. In the process, we have developed criteria for implementing the President's policy.

Our general approach has five tenets. First, we remain committed to the GATT, and to the success of the Uruguay Round. Second, negotiations on a free trade agreement with Mexico and Canada will come first.

Third, we are concluding framework agreements on trade and investment with the countries of the region, and groups of countries that wish to work with us toward freer trade.

Fourth, the process of creating a free trade area will take, in our view, years, and will certainly stretch into the next decade. Fifth, in general, we believe that negotiating with a regional group of contiguous countries is more attractive than with a great number of individual nations.

Our overall objective is to increase regional arrangements that increase trade among the countries of the region themselves, as well as with the United States. At the same time, we want to take advantage of opportunities to negotiate with individual countries which are pursuing sound economic policies and are prepared to accept the obligations of free trade arrangements.

Realistic candidates for free trade arrangements must have the institutional capacity to fulfill long-term, serious commitments, including a stable, macro-economic environment, and market-oriented policies. Such a country must be committed to the multilateral trading system. In our view, the enterprise is compatible with, and supportive of the multilateral trading system.

Agreements with countries in the region should be consistent with each other, and with the North American Free Trade Agreement. Hemispheric agreements need to cover trade-related economic policies, and classic tariff phase out provisions.

The following elements constitute our initial negotiating objectives: We would seek to eliminate substantially all tariffs, eliminating barriers on substantially all trade, which is a prerequisite for consistency with the general agreement on tariffs and trade. We would seek the phase out of all non-tariff barriers. The agreements would cover services, as they are important in international trade and a source of U.S. competitive strength. We would seek to establish liberal standards for the treatment of investments, including guarantees of national treatment.

Performance requirements on investment have no part, in our view, in a free trade relationship. We would wish to guarantee the protection of intellectual property rights; to provide rules on trade on natural resources and natural resource-based products; to cover operational, technical and security provisions including rules of origin; standards, regulations, safeguards, and docking provisions for adding future free trade agreements and consolidative procedures. And then finally, of course, we want to have suitable and effective dispute settlement mechanisms.

It is our firm policy—and I want to say this as strongly as I can, Mr. Chairman—that we will consult often and closely with the Congress, and particularly with this committee, as we move forward in this process. I take Senator Baucus' word. We will walk the extra mile. We think it is essential that we work with the Congress on this process.

Although Chile could be a candidate for the negotiation of an FTA within the period of this fast-track extension, few, if any, other countries in Latin American and the Caribbean are expected to be ready to negotiate free trade agreements with the United

States within this timeframe. Nevertheless, we need fast-track procedures to retain the credibility of the President's initiative. Without fast track, countries of the region will question our commitment to the vision of hemispheric free trade.

Their continued determination to carry out difficult reform measures will weaken, and we will lose the chance to increase our experts; to craft a new relationship in the hemisphere; to strengthen the multilateral trading system; and integrate Latin America and the Caribbean more fully into the global economy.

Any negotiations of free trade agreement under fast-track procedures would not begin without full consultations with the Congress, and, of course, the running of the 60-day legislative advance notice period, as required by the Omnibus Trade and Competitiveness Act of 1988. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, we are pleased to have you, and look forward to your testimony.

[The prepared statement of Ambassador Katz appears in the appendix.]

## STATEMENT OF HON. DAVID C. MULFORD, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

Secretary MULFORD. Thank you, Mr. Chairman. It is a pleasure to be here this morning. I have submitted full testimony, which I am sure would be included in the record.

The CHAIRMAN. That will be done.

Secretary MULFORD. I would like to just summarize that in 7 or 8 minutes of comments.

The CHAIRMAN. All right.

Secretary MULFORD. First of all, I want to make the point, Mr. Chairman, that the Enterprise for the Americas Initiative is a broad and coherent foreign and economic policy initiative. And it already is acknowledged in Latin America to be the most important such initiative by this country since the Second World War. I think that is an important point to start with, because it addresses the broad picture that you yourself laid out in your opening comments.

The initiative is designed to deepen and to expand our mutual relationships in trade and in investment with Latin America and the Caribbean. This is a region in which we share a long, common cultural heritage, and whose leaders in recent years have already shown a strengthening commitment both to democratic values on the one hand, and to market-based economic reforms on the other hand. So I think we are in full agreement with you, Mr. Chairman, that we see here a window of opportunity, and the window has been identified and opened. And I think the stage is set for us to follow through. The important point here is that we need to follow through with as little delay as possible.

As Julius Katz has said, the Initiative proposes three broad areas of activity. It has three pillars, as he said. And again, here I think the important thing is that these pillars identify the most important political and economic concerns of the Latin American and Caribbean countries, and those are trade, investment, and debt.

Turning first to trade, where I would just like to make a brief observation. In particular, Mr. Chairman, I want to emphasize the significance of the trade pillar of the Initiative to the overall success of the Enterprise for the Americas Initiative, and more fundamentally, to the future of the relationship between the United States and our neighbors.

For years we have been urging the countries of Latin America and the Caribbean to eliminate trade barriers and to open up for investment. These barriers have impeded their own economic growth. Now, under the Initiative, we are offering them what might be characterized as a somewhat tough, but a fair deal; that they commit themselves to effective market-oriented policies, and we undertake to negotiate reciprocal free trade relationships based on a balance of benefits and obligations.

This proposition, in the last 9 months, has had a very substantial impact on thinking in Latin America. I have been down there two or three times—once in December with the President—and it was quite clear that the Initiative has fundamentally altered thinking about trade within the region, as well as with the United States, and has fomented a dialogue and debate throughout the region about how to proceed, which has been extremely healthy.

Why should Latin American countries accept agreements which will require them to shoulder the great burden of policy reform? Ten, 5, or even 2 years ago, Mr. Chairman, the magnitude of the reforms required would have given them pause.

But today—and in particular, we see this already in Mexico—there is, I think, an emerging consensus that reforms implied by free trade agreements—namely broader macro-economic and structural reforms, as well as the elimination of barriers to trade—are, in fact, pre-requisites for their own renewed economic growth.

Why is this a fair deal for the United States? What would we gain from free trade with Latin American countries under the Enterprise Initiative? The United States currently supplies about 40 percent of Latin American and Caribbean imports. We are well-positioned to benefit from increased capacity and openness to trade on the part of these countries. And the same, I might add, is true for investment.

We will gain from having more prosperous neighbors, and therefore, more valuable trading partners as their reforms give rise to faster growth and rising incomes. Furthermore, open, dynamic economies will be stronger partners in general in the world trading system.

I would like to comment briefly on the investment question that arises here. The need to attract capital in order to build upon reforms that are already under way is really at the heart of every country's development challenge.

Resources in today's world are limited. Commercial banks are no longer extending the loans that they used to to provide broad support for economic growth, and creditor governments also face constraints on their ability to provide economic assistance, while events in Eastern Europe and in the Middle East have obviously heavily added to the demands for such assistance.

Private investment is, therefore, receiving a new priority as a source of capital for development and growth. Latin American and

Caribbean countries realize that they must compete more aggressively to draw the interest of investors on the one hand, and also to recover the savings of their own people.

This is, in fact, dramatically demonstrated by simply looking at two figures over the past 10 years. One is the disappearance of the United States' trade surplus with the region from 1980 to 1989. We went from a modest surplus to a $9 billion deficit.

And the second figure is the decline of the share of Latin America's direct investment flows as a proportion of total investment flows in the world. Again, over the 10-year period, these countries have become less and less competitive, which is a key barometer that demonstrates what the problem has become.

They recognize that, and that is the important point, because, until they recognize that themselves and are ready to undertake the challenge of policy reform, very little can be done that does not leave by the back door as quickly as it comes in the front door.

The Inter-American Development Bank is moving forward with this program—the Enterprise Initiative program—to encourage investment. Negotiations of investment sector loans have already begun with four countries. The first loans are expected to be ready for consideration by the IDB Board of Directors in June.

Two additional countries are planning to begin discussions with the Inter-American Development Bank in the near future, and a number of other countries have also expressed interest in following up with the reform of their investment regimes, which will involve substantial policy reform, and opening of their investment sector.

The loans that would be extended under this program by the Inter-American Development Bank will make a critical difference in the competition for capital.

Additional, more directly targeted support is also needed, however, and for this reason, we have proposed in the Enterprise Initiative a new multilateral investment fund, which will be administered by the Inter-American Development Bank. And this fund would direct resources to support specific investment reform actions that are taking place, and would help ease some of the burdens of undertaking these measures.

Existing institutions, including the IDB, and the Inter-American Investment Corporation, will continue to play an important role in the overall adjustment process, but we believe that the new multilateral investment fund is required to provide a concentration of energy and resources needed by these countries during the period of radical reform that we see as necessary for their investment regimes.

Our goal here is to establish a fund of $1.5 billion over a five year period, and we are seeking authority from Congress for a U.S. contribution to that fund over that period of $500 million.

Based on extensive discussions with the Inter-American Development Bank and other creditor governments at the recent annual meeting of the bank, we are optimistic that other non-borrowing members of the IDB—many of whom have strong, traditional ties with the region—will provide the remaining resources required for the fund.

In the context of a shared commitment among donors to help countries take the steps to compete for capital, I hope we can count on the support of the Congress for a U.S. contribution.

Next, I would like to address the question of confidence-building, Mr. Chairman. And that involves the question of the burden of debt and its relationship to investment flows. The overhang of external debt has constrained the resources available for growth and tested the resolve of nearly every government in Latin America and the Caribbean over the past 10 years. By easing the burden of debt for countries committed to necessary economic reforms, we can help them attract new investment capital, and reinforce the rewards of sound economic policy.

Thus, the debt pillar of the Initiative takes a pragmatic approach. By proposing to reduce bilateral debt owed to the U.S. Government by eligible countries, the Initiative complements the international effort already under way under the Brady Plan to address commercial bank debt problems.

Reducing bilateral debt will be particularly important for the relatively small countries of the region that owe a substantial portion of their individual debt to official creditors, instead of to commercial banks. We gained the authority—may I——

The CHAIRMAN. Go ahead.

Secretary MULFORD. May I continue? Thank you, Mr. Chairman. We gained the authority last year in the Farm Bill to reduce Public Law 480 debt for countries pursuing strong economic and investment reform programs, and to channel local currency interest payments into environmental projects in each country.

Several countries—including Chile, Jamaica, and Bolivia—are today well-positioned to qualify for the Public Law 480 debt reduction over the next few months. Other countries could also qualify in the near future. We will begin discussing reduction of individual country Public Law 480 debt once these countries have met the necessary conditions.

To offer the full potential benefits of the debt reduction proposed under the Initiative, however, we must gain authority from Congress to undertake reduction of AID debt. The Public Law 480 debt constitutes only about one-fourth of the $7 billion in concessional debt owed to the United States by the region.

A far larger share of this debt—some $5 billion—is owed to AID.

We are also seeking authority on top of that, Mr. Chairman, to sell a portion of the Eximbank loans and CCC assets, which are commercially priced debt—and that total about $5 billion—in order to facilitate investments in equity, environmental, or developmental projects in the eligible countries. These so called "swaps" will help reduce the stock of non-concessional market debt to the United States, while promoting productive contributions to the debtor country's economies. I want to emphasize, Mr. Chairman, that by reducing bilateral official debt, we hope not only to ease countries' financial burdens, but also to provide significant support for the environment.

By allowing interest payments on reduced concessional debt obligations to be made in local currency to support environmental projects, the Initiative can help assure ongoing support for sustained environmental progress.

It will also make an important contribution to building institutional capacity and local organizations, and thereby, to generate long-term grass-roots support for protection and preservation of the environment.

So in summary, and to conclude, Mr. Chairman, strong Latin American and Caribbean economies will benefit our hemisphere, and the world as a whole. To respond to the efforts under way in Latin American and the Caribbean, we must be prepared to move forward on each element of the Initiative—trade, investment and debt.

To work credibly with other countries towards a hemispheric free trade area, it is critical that we gain fast-track negotiating authority. To proceed with support for the opening of investment regimes and the reduction of bilateral credit, we also need authority from Congress.

The President transmitted on February 27 a legislative proposal that would provide the latter authority. Positive action on this legislation will send a strong signal to Latin America and the Caribbean about the U.S. commitment to follow through on the Initiative.

The United States shares with its neighbors in Latin America and the Caribbean high hopes for the future. As they turn toward strong, market-oriented economies, leaders throughout the region are enthusiastically supporting this initiative. We must do our part. I hope we can count on your support. Thank you.

[The prepared statement of Hon. David C. Mulford appears in the appendix.]

The CHAIRMAN. Thank you, Mr. Secretary. Mr. Katz, you touched on this in your comments, but I would like to get it readdressed. It is not a blank check we are talking about on negotiations. And a part of the 1988 Trade Bill was the 60-day notification.

Ambassador KATZ. Yes.

The CHAIRMAN. And what I want to be assured of is that we are talking about a 60-day notification on any and all agreements negotiated under the Enterprise for the Americans—that we will have that in the Congress.

Ambassador KATZ. Absolutely, Mr. Chairman. I recognize that the Trade Act does distinguish between bilateral——

The CHAIRMAN. Correct.

Ambassador KATZ [continuing]. And multilateral agreements, but I do not think that at that time it was contemplated that there would be multilateral agreements apart from the Uruguay Round. But it is our clear understanding and intention that we will notify any negotiations under the enterprise, whether they be bilateral, or multi-country.

The CHAIRMAN. Well, I think that is well-stated. And that is part of the agreement as I understand it. All right.

Now, when you are talking about a 2-year extension, that that is not enough time to get a free trade agreement with a great many countries down there, assume you had all the time that you needed. What would be the parameters? How would you judge who you would choose to go ahead with?

Ambassador KATZ. Well, as I indicated in my statement—incidentally, Mr. Chairman, I think I neglected at the outset to ask that my full statement would be included.

The CHAIRMAN. It will be taken in its entirety.

Ambassador KATZ. I appreciate that. But as in my full statement and my opening remarks, we believe that countries need to be committed. They need to be able to undertake the obligations of a free trade agreement, both in terms of the policies they pursue—their domestic policies—as well as their willingness to open their markets to trade in goods, and services, and investment, to adopt modern, world-class intellectual property protection.

I think there are two aspects of the timing issue. The first aspect is what could we feasibly do within the next 2 years? But I think the more important consideration is that other than perhaps Chile, we frankly do not see countries are quite at a stage at this moment where they would be ready to undertake the obligations required. Now, some of them are moving very rapidly, but we do not see many opportunities within the timeframe we are considering.

The CHAIRMAN. Mr. Secretary, as you are talking about re-organization of some of these debts. And I look at the enormous burden that some of them have. What a hill to climb, and try to do it under a democratic system when you are talking about sacrifices is not easy.

I look at some $420 billion worth of external debt, as I understand it, for Latin America. And the numbers you are talking about is trying to take care of some $12 billion in Latin America's debt, which would be eligible for restructuring under the debt proposals in EAI. That is only 2 percent. How is that going to seriously alleviate Latin America's debt problems?

Secretary MULFORD. Well, Mr. Chairman, I think one has to look at the debt problem on a country by country basis in order to get the perspective on that. The bulk of the debt in Latin America in the big countries is commercial bank debt. That has been addressed by the Brady Plan. That is an ongoing project, and there has already been significant debt reduction.

But in many of the smaller and medium-sized countries that I mentioned where the debt profile is totally different, their bilateral official debt and the portion owed to the United States represent a very substantial amount.

Take Jamaica, for example. Jamaica has only about 9 percent of its debt with commercial banks. The balance of that debt—about 90 percent—is approximately equally divided between multilateral institutions on the one hand, and bilateral debt on the other.

And then the U.S. portion of the official bilateral debt is about half of that amount. So you are looking at a situation where, in Jamaica, debt relief from the United States would make a substantial contribution. And that picture is reproduced throughout a number of the smaller and medium-sized countries of the region that are not so heavily dependent on commercial bank debt, though it is not insignificant.

The CHAIRMAN. Well, of course, you can pick and choose on countries, but some of those, it seems to be an incredible burden to try to surmount. I see my time has expired. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. I want to follow up on the Chairman's very first question, Mr. Ambassador, just to nail it down. That is that the administration intends to seek individual

45-778 0 - 91 - 2

authority for each specific Latin American country in pursuing the Enterprise for the Americas, is that correct?

Ambassador KATZ. Well, I would say two things. First, as was the case with respect to Mexico and Canada before we even served notice, of course we would consult with the committee and other members of Congress, and other committees about the prospect of a negotiation.

In response to the Chairman's question, what I said was that we would notify formally—we would use the 60 legislative day notification—irrespective of whether it was a bilateral negotiation and prospect, or a multi-country negotiation.

Senator BAUCUS. So, if I understand you then, it is possible—although we are speaking in very theoretical terms here—it is possible that it would use the 60-day notification for a group of countries, rather than the 60-day notification for each of, say, three or four countries that might be in the group.

Ambassador KATZ. Well, we would do both. I mean, we would——

Senator BAUCUS. To save time. All right. So you do it——

Ambassador KATZ. In your terms, we would walk the extra mile.

Senator BAUCUS. I appreciate it.

Ambassador KATZ. We would do whatever is required so the Congress had due notice, both informally, and then formally as required in the act.

Senator BAUCUS. I appreciate that. While I have you here, the end of the month is important for the USTR on several trade matters. Foremost, the action plan which the administration intends to submit in response to the Chairman's letter.

Ambassador KATZ. Yes.

Senator BAUCUS. Second, by Friday, the administration must indicate the countries that it intends to list, if any, under Special 301. And by May 1, in addition, administration must indicate or certify what progress, if any, with the United States-Japanese construction agreement.

Ambassador KATZ. Yes, sir. And Title VII, also.

Senator BAUCUS. That is correct. Well, we will be watching all those very closely.

Ambassador KATZ. We understand. We understand. That has been one of the matters which has preoccupied us in recent weeks, and we have been working very hard on it. And those reports will be out before the end of this week.

Senator BAUCUS. Thank you. Mr. Secretary, it is good to have you back here.

Secretary MULFORD. Thank you.

Senator BAUCUS. Could you, in a little more detail, explain, I guess, the debt-for-environment kinds of swaps that the administration is contemplating?

Secretary MULFORD. Yes. There are two sources of money for environmental programs in the Enterprise Initiative. One is from the act of reducing concessional debt. When a new and reduced body of debt results, we have agreed we will take local currency interest payments on that debt and direct those into a fund created in each country for environmental programs. That is one source of money.

The other source is when a piece of non-concessional debt is sold, like Eximbank, or CCC. We would sell that for the purpose of a swap, which means that the debt is entirely eliminated, and in its place, local currency is produced for use in equity, or nature, or development operations in the country. A country has to have programs in place for that, but it can use that paper when it is tendered by a participant to extinguish the debt and produce local currency in its place.

Senator BAUCUS. And who would decide what those expenditures might be used for? Like say, the interest, for example, on the debt that is forgiven under the first scenario.

Secretary MULFORD. Well, in the program to reduce debt—official bilateral debt—local currency would be paid into an environmental fund. A supervisory board here in the United States, which is made up of a majority of U.S. Government officials, but also includes private environmental people, would oversee the overall program.

A local or country committee, made up of private individuals, with some U.S. and local government representation, would act sort of like a foundation in administering the funds. It would develop programs, and have a certain amount of autonomy and freedom to develop those programs under the general guidelines of an environmental framework agreement that has to be negotiated between the United States and each debtor country.

Senator BAUCUS. Now, would this be concurrent with, or included in the trade agreement, these provisions?

Secretary MULFORD. This is entirely separate from any trade agreement. This is a process that will begin as soon as countries are ready to meet the requirements and engage in debt reduction.

Senator BAUCUS. I understand. But there are enforcement provisions under the trade side. What enforcement provisions would there be with respect to debt relief provisions that may be agreed to?

Secretary MULFORD. Well, they have to meet certain conditions to qualify for debt reduction. One of those would be to open their investment regime; have an investment sector lending program from the IDB. Others would be to have an IMF program in place, and have a commercial bank deal done if they are a big debtor country—not if they are a small debtor. And then they would move into the debt reduction phase with us, and the environmental framework agreement would be negotiated, and they would have to abide by that.

Senator BAUCUS. One final question. Some would say that the—if I might, Mr. Chairman.

The CHAIRMAN. Go right ahead.

Senator BAUCUS. One might say that the assumption behind this Enterprise Initiative for the Americas is that the Latin American countries are economically weaker than the United States, and this will—agreements to debt relief, or investment reform, or trade negotiations, will help boost these other countries' economies.

Why not say that the debt that we are talking about is—I have forgotten the figure you used—$12 billion, I think you used. Correct me if I am wrong. But U.S. total debt is $1 trillion. And some could suggest if any country needs debt relief, it is the United States. What is your response to that?

Secretary MULFORD. I would hope that could be the subject of another hearing, maybe.

Senator BAUCUS. But it just seems to me we have got to also address some economic problems here in this country.

Secretary MULFORD. Oh, I think that is right, sure. I would not quarrel with that.

Senator BAUCUS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman. Let me try to see if I can understand what you are saying on the debt-for-environment swaps.

The first one is the establishment, essentially, of mutual trust funds. One supervising agency in the United States, and a supervisory agency in, say, Brazil, or some other country. And then official debt will be reduced, and the country in question will pay, in local currency, into a fund that will be available for environmental activities in that country. Is that correct?

Secretary MULFORD. Only the interest on the debt.

Senator BRADLEY. The interest on the full amount of debt, or the debt that is reduced?

Secretary MULFORD. The interest on the reduced portion would be paid in local currency. The principal payments on the reduced portion would be paid in dollars to the United States to retire the principal of the debt.

Senator BRADLEY. All right. So the question is how much official debt is there? $12 billion, roughly?

Secretary MULFORD. That is our total official bilateral debt with Latin America and the Caribbean: $12 billion.

Senator BRADLEY. So that the maximum amount of money going into an environmental fund is the interest on $12 billion taken to the logical conclusion?

Secretary MULFORD. No. It is the local currency interest on whatever the $12 billion would be reduced to.

Senator BRADLEY. Right. Now, is it a problem in your mind in terms of inflation in some of these countries? Because when they pay in local currency, in many cases, they have to print the currency. I have had several conversations with Central Bankers who express a concern about how much they can actually absorb, given their fight against inflation.

Secretary MULFORD. Well, those numbers on the reduced debt are very small. Take a country that has $100 million worth of debt. If that is reduced by 80 percent, that leaves $20 million. And you have a concessional interest rate of, say, 2 to 3 percent on $20 million. It produces relatively small numbers. That is why the environmental programs are intended to be local, grass-roots programs that are not terribly sizable, but we feel are very important.

The problem you are referring to is a more serious problem where you have large swaps taking place in which the Central Bank has to produce local currency to the full value of the principal amount of the debt. But again——

Senator BRADLEY. Now, that is the second type of relief that you are talking about.

Secretary MULFORD. That is the second type of reduction. But that is not going to be very large, because we do not anticipate selling more than 10 to 20 percent of that kind of debt. So I do not think——

Senator BRADLEY. Ten to 20 percent of the $12 billion?

Secretary MULFORD. No, of the approximately $5 billion that is represented by the non-concessional type of debt. And therefore, although in theory their concern is a valid concern, in practice, I do not think it is difficult. And I think they will be able to manage it without any trouble at all if they make it a priority, which, of course, we hope they will.

Senator BRADLEY. Just once again, in both parts, the establishment of the fund and the swaps, according to Enterprise for the Americas, the total amount of debt eligible for the two programs combined is $12 billion?

Secretary MULFORD. $12 billion, yes.

Senator BRADLEY. All right. Let me ask you. You lay out several criteria for qualification for this, one of which is investment reforms. The IMF and World Bank sometimes also include investment reforms in their adjustment program. So what are you specifically referring to? Is this a difference without a distinction, or are there additional criteria beyond what the World Bank and the IMF might ask for?

Secretary MULFORD. We have encouraged the World Bank to emphasize the development of the private sector and to try to encourage investment. But that is a very general proposition. There are no, what are called "sectoral lending programs," of any size that are devoted to the reform of investment regimes.

There are financial sector loans in the World Bank, but they are not devoted to the total liberalization of the financial market regime. These new loans in the IDB will have as criteria the need to really address the fundamental problems that inhibit investment: inadequate arrangements for international arbitration; discrimination between foreign and domestic investors; the freedom to move money in and out of the country to repatriate dividends; the kinds of commercial problems that businessmen face when they go to make an investment in Latin America.

That is where the focus of this will be, to open these countries up. And at the same time, if those reforms are coming into place, and the burden of debt is being reduced—whether commercial bank debt or official debt—the psychology of investment will change, because the credit profile of the country will change, and it will be a more attractive place to bring your money back to if you are local, or to invest in if you are a foreigner.

Senator BRADLEY. All right. Are we giving commercial banks the veto right here if the country has to get an agreement with commercial banks prior to being eligible for official debt relief?

Secretary MULFORD. No, we are not. Because what we are saying is only in those cases where the commercial bank debt is very substantial, probably 50 percent, or so, will we ask them to do their deal first. Otherwise, we will not be concerned. And frankly, if they do not get their deal done in due course, we will probably go ahead.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman. I am sorry that I missed your remarks, although I have had a chance to review them. I was over on the floor of the Senate participating in the debate on the Social Security tax reduction.

In my opening remarks, I commented on the administration's proposal for an Americas Investment Fund. I specifically commented about the $300 million annually that will go towards worker retraining and relocation.

My question to either of you is, if the administration is willing to provide funds for worker retraining and relocation in Latin America, why is it opposed to providing similar funds for American workers who may be displaced by foreign imports, or other agreements?

Secretary MULFORD. Let me take the first part of the question. The multilateral fund has three broad aims. One is to provide technical assistance to support investment reform. Two is to provide direct investment in the form of equity and loans to small businesses. And three is to provide human resources support.

Now, in that latter area, just let me give you one example. If a country is going to privatize a major industry, the politicians often say, well, we cannot do that, unemployment will be too great.

So here is a program for a period of time that will provide grant money to help in relocation and training to remove that political obstacle to a major privatization program. The technical assistance piece will provide resources to go out and get the financial expertise to support a privatization. A lot of these small countries simply do not have it in house. They do not have it in their markets.

And finally, in the other area of smaller business investment, the aim there is to say let us not leave the small business community behind, let us have a program for these guys, not just for the big privatizations.

Ambassador KATZ. Senator, if I could just address the administration view. We are not opposed to providing funds for adjustment. And in fact, the funding for education and job training has increased substantially over the last several years. I think the funds have almost been doubled to over $500 million now. So I——

Senator GRASSLEY. Well, all right. Maybe I misinterpreted the administration's position. Let me put it this way then. You are saying the administration would be in support of providing assistance for American workers if it were done in the same way as the Americas Investment Fund.

Ambassador KATZ. Yes, sir. That is correct.

Senator GRASSLEY. All right. Thank you very much. That information is very helpful. On another point, I understand both Japan and Europe may be asked to assist in the debt restructuring program. I would like to have you explain the reasons and the terms of that request to this committee, if that is true.

Secretary MULFORD. Well, in the debt restructuring—the reduction of debt that I have described—that is a bilateral activity on the part of the United States, which we are doing alone with countries in Latin America.

We have encouraged other countries to join in, but we have not insisted that they should join in. We have asked other countries to contribute money to the multilateral investment fund to support the investment reform that is linked to the debt reduction part of the program. But we have not directly asked them to reduce their bilateral debt.

Senator GRASSLEY. All right. Well, apparently, we have not yet asked. But, do we anticipate doing that? Do we, as a government, consider the significance of having countries, like Japan and Europe, involved in this specific debt restructuring? I know we have encouraged Japan to generally give more foreign aid. Would it not be to our benefit, or are you anticipating asking Europe and Japan specifically?

Secretary MULFORD. Well, as you know, we already participate with all the major creditor countries jointly in debt reschedulings and restructurings in the Paris Club. We recently did a major restructuring and reduction for Poland, some 50 percent debt reduction. And that was done by all the creditor countries.

In this case, the decision was made that Latin America has a very special significance to us. Our bilateral debt is of a reasonably small magnitude, and we should just move on and set the leadership example by moving forward on debt reduction ourselves with these countries; ask them to join in, but not do it within the Paris Club context. It would take years if we adopted that approach.

Senator GRASSLEY. All right. Mr. Chairman, thank you very much.

The CHAIRMAN. Thank you. Gentlemen, we have some competing things for our attention with a vote coming up on the floor. It is going to be a close vote, and some of us are working on that. So we would like to be able to prepare some questions—Senator Bradley wanted to, in particular—for you, if you would accept those and give us answers for the record. Thank you very much. Thank you very much.

[Whereupon, the hearing was concluded at 11:32 a.m.]

# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED

---

### PREPARED STATEMENT OF SENATOR MAX BAUCUS

The Constitution clearly grants the Congress primary authority over trade policy. But negotiations with foreign countries can only be handled by the President. In order to make trade negotiations work, a bargain must be struck. The Congress must rely on the President to negotiate and the President must consult with the Congress on objectives.

That is what the fast track is all about. It is a bargain between the Congress and the President that allows trade negotiations to succeed. The 1988 Trade Act expands the bargain by granting the Administration broad fast track negotiating authority in return for the Administration vigorously enforcing U.S. trade laws, including Section 301 and Special 301. I am willing to hold up my part of the bargain. I strongly support the extension of the fast track. I have worked and continue to work to convince my colleagues to support this extension.

But the Administration must do its part. The Administration must be willing to listen to Congress on objectives for the negotiations. Many of my colleagues have expressed concerns about the upcoming free trade negotiations with Mexico related to the environment, worker's rights, and the wage disparity between the U.S. and Mexico. I expect the Administration to meaningfully address those concerns in its Action Plan for the negotiations.

Beyond that, we expect the Administration to vigorously enforce U.S. trade laws. The Administration will have two opportunities to do that in the next few days. First, under the Special 301 provision, the Administration must identify those nations that allow piracy of U.S. intellectual property and initiate Section 301 cases against them. I expect the Administration to fully implement Special 301 and finally identify the countries that allow piracy.

Second, the Administration will decide if Japan is living up to its commitments under the U.S.-Japan Construction Agreements. We must insist that nations live up to the commitments they make to the U.S. in trade negotiations. Otherwise, we are wasting our time negotiating the agreements. Unless Japan fulfills the commitments it has made to open its construction market, the U.S. will have no choice but to retaliate.

The Congress will be watching these Administration decisions very closely. The Administration must demonstrate that it will live up to its half of the fast track bargain.

---

### PREPARED STATEMENT OF SENATOR LLOYD BENTSEN

This is the sixth in a series of hearings we have been holding in this Committee to examine the President's request for an extension of fast track negotiating authority.

The President's request covered three types of agreements: the multilateral Uruguay Round negotiations; the proposed North America Free Trade Agreement negotiations; and the Enterprise for the Americas.

We have held one hearing on the general question of the fast track extension. We held two hearings on the proposed negotiations with Mexico and Canada. Last week, we held two days of hearings to review progress in the Uruguay Round of multilateral negotiations.

Now, we turn our attention to the Enterprise for the Americas.

The President indicated in his March 1 request that an extension of fast track authority would permit the Administration to pursue trade agreements under the

Enterprise for the Americas. But the President also indicated that very few, if any, Latin American countries would be ready to negotiate trade agreements with us within the next two years. He cited only one possible candidate for a free trade agreement—Chile.

Fast track authority does *not* give the Administration a blank check. It is the responsibility of the Congress to examine every aspect of the fast track extension request—including the Enterprise for the Americas—regardless how many agreements the Administration thinks it might negotiate.

That's why I have called this hearing. The Enterprise for the Americas initiative deserves close scrutiny. It is an ambitious plan that includes a long-term goal of a hemisphere-wide free trade zone. It addresses issues that are critical to the economic health of Latin America—investment reform and debt relief.

I will be interested to learn from our witnesses about the genesis of this initiative. I want to understand the economic rationale for the Enterprise, and I want to understand what the foreign policy implications are. I hope to hear how the Enterprise for the Americas fits in with the other debt and investment programs that are underway in the region—other U.S. Government initiatives and programs that are conducted by institutions that we fund, like the Inter-American Development Bank.

And on the trade side, I want to understand just what the prospects are for free trade agreements with the countries of the region, and how the United States would benefit from such agreements.

I have an open mind on the Enterprise for the Americas. One thing is clear: We have an unprecedented window of opportunity to forge closer ties with Latin America and reverse the decade-long decline in major parts of this hemisphere. Democratic institutions are beginning to take hold in many of the countries in the region. Governments are abandoning the protectionist policies that helped mire them in debt and poverty.

The misguided policies of the past have exacted a heavy toll—on the United States, as well as on Latin America. From 1982 to the present, debt and sagging demand in Latin America have lost the United States net exports of $103 billion. That means lost opportunities for U.S. businesses and lost jobs for U.S. workers.

There are signs that the situation may be improving somewhat, but there is a long way to go. Our exports are increasing, but even if you include Mexico, our exports to Latin America account for only 14 percent of our total exports. Total Latin American debt stands at $430 billion, and despite attempts to promote debt reduction and debt restructuring, Latin American debt is actually $100 billion higher today than it was when the debt crisis began in 1982.

We must find a way to help Latin America pull itself up by its bootstraps. The question is whether the Enterprise for the Americas, and in particular the free trade agreements that we might negotiate, are the appropriate way to go. I'll be very interested to hear what our witnesses have to say.

---

## Prepared Statement of Senator Charles E. Grassley

Thank you Mr. Chairman. In looking over the briefing information provided by staff for this morning's hearing on the Enterprise for the Americas several things caught my eye.

The first thing that the material sited of interest to me was the proposal for an Americas investment fund. The fund would provide: (1) up to $300 million annually in grants, and in some cases loans, to assist countries in privatizing government-owned industries, (2) advance market-oriented investment reforms, provide technical assistance, and (3) finance worker training and relocation.

The second issue of interest to me was the President's proposal to reduce or restructure official debt owned to the U.S. Government by countries in the region.

I bring up these two areas because of an editorial I read in the Des Moines register, part of which I would like to quote:

"The United States remains the world's largest economy by far, and it has impressive gains in exports in recent years. Despite the current recession, there is no reason for gloom.

"But there is reason for shoring up U.S. economic foundations. Some basic maintenance was neglected for 40 years during which the United States diverted huge chunks of its wealth into fighting the cold war.

"Now, compared to its main economic rivals, the United States wastes the lives of far too many potentially productive people by leaving them in ignorance and poverty. It borrows too much money to finance consumption while not saving and investing enough for the future. It has fostered a corporate culture that cannot take the long view. It has done nothing to reduce vulnerability to oil shocks. It has neglected its infrastructure.

"If there is to be a new world order, it will belong to those nations that have taken best care of their economies at home."

Mr. Chairman, I believe this editorial does an excellent job of reminding each of us of our responsibility of keeping this nation strong not only against a potential enemy outside of our borders, but also the twin deficits of trade and federal budget within our borders.

While there are a number of attractive illustrations of why we should expand our trade with Mexico and the rest of Latin America, we should study the implications of these investment and debt reduction programs as to there affect on the U.S. economy.

Mr. Chairman, that may be a parochial view—but it emphasizes if America is not economically strong—we cannot help the rest of the world.

Without doubt, the United States has recently demonstrated its capacity to lead the world politically and militarily. The real question today is can the United States complement these achievements with domestic as well as international economic leadership.

Thank you Mr. Chairman, I look forward to the testimony of our two outstanding witnesses this morning.

---

## Prepared Statement of Julius L. Katz

### INTRODUCTION

Mr. Chairman, thank you for the opportunity to discuss the trade aspects of the President's Enterprise for the Americas Initiative in the context of the Committee's consideration of our request for extension of "fast track" procedures for approval of trade agreements.

The Enterprise for the Americas Initiative (EAI), proposed by the President in a major policy address in Washington on June 27, 1990, is the result of a thorough review of U.S. economic policy toward Latin America. It represents a new approach, and a new more equal and reciprocal relationship, with the other nations of the Western Hemisphere. The Initiative would not have been conceivable absent the impressive commitment of individual Latin American nations to economic reform, liberalization and democracy in recent years.

Implementation of the Initiative offers the prospect of significant economic and political benefits to our nation and to our relations within the hemisphere. We will benefit as reform encourages faster growth and progress across a range of social, political and economic issues. Stronger and more prosperous neighbors are better neighbors and better customers for U.S. goods and services.

The Enterprise for the Americas Initiative consists of policy proposals in three areas: trade, investment and debt. In addition, the Administration proposes to channel local currency interest payments on reduced debt reduction operations to fund environmental activities in the region.

The policy initiatives in each area are interrelated and mutually reinforcing. For example, we expect that the prospect of expanded trade opportunities will stimulate new investment; that capital flows responding to improvements in investment climates will help countries deal with their debt obligations; and that reductions in the stock of debt will make it easier to attract capital and finance trade flows.

### TRADE LIBERALIZATION IN THE HEMISPHERE

Let me begin by pointing to the strategic backdrop for the EAI, for I think that an understanding of our notion of the historic moment is an important part of the case for deciding to move toward free trade with the countries of Latin America today.

For the first time in decades, all the major countries of Latin America are headed by democratically elected leaders committed to economic liberalization. At the same time, countries throughout the region have come to the realization that the old model of economic development, based on import substitution behind a high wall of protection, has failed. Tariffs are coming down, import licensing regimes are being scrapped. In Argentina, to cite one example, the average import tariff was more than 38 percent in 1988 and has been reduced to 9 percent this year. Furthermore, the list of items requiring prior licensing has been cut from 3,000 to 0 in the same time frame. Brazil is another example. It substantially relaxed its restrictive import licensing regime in 1990 by eliminating a list of over 1,000 products that were prohibited from importation and so-called "import programs," which de facto operated as import quotas. Tariffs are now Brazil's primary tool for regulating imports. Brazil's tariff rates are being phased down. The average tariff in 1990 was 32 percent with the highest rate being 105 percent. By 1994, the average rate is to be 14.2 percent with a maximum of 40 percent.

If we can use this strategic moment to begin to craft a new economic and political relationship based on open markets and reduction of trade barriers, we can do much to ensure mutually advantageous economic growth and trade into the next century.

It was this concept of historic opportunity that influenced the development and the timing of the Enterprise for the Americas Initiative. It also explains the enthusiastic reaction to the Initiative in the hemisphere, as leaders who have made the politically courageous commitment to liberalization were among the first to recognize the significance of the President's response.

### ELEMENTS OF THE TRADE "PILLAR" OF THE INITIATIVE

The President specified two mutually reinforcing trade policy approaches to bring down trade barriers in the hemisphere.

The first, as the President emphasized, must be a successful outcome to the Uruguay Round. The nations of Latin America need such a result as much as we do. Agricultural subsidies and protectionism damage the competitive food exporters of South America and the tropical products exporters of Central America every bit as much as they do the farmers of Iowa. Latin America similarly has much at stake in market access for manufactured goods, services, dispute settlement and rules issues in Geneva. So we are making a point of cooperating very closely with Latin American countries in the Uruguay Round, and we have been impressed by the dedication and leadership they have shown throughout the Round.

The second trade policy element of the EAI has been its vision of a "system of free trade" from Point Barrow, Alaska, to Patagonia. The President has observed that the North American Free Trade Area (NAFTA) would be the first step in the creation of such a hemispheric market.

### LATIN AMERICAN SUPPORT FOR A MULTILATERAL TRADING SYSTEM

The nations of Latin America and the Caribbean clearly recognize that membership in a strong multilateral trading system is in their national self interest.

Most of the nations that have applied to join the GATT in recent years are in Latin America. Costa Rica, Bolivia and Venezuela have joined in the last two years, and El Salvador and Guatemala will complete their accessions within a few months. Honduras and Paraguay have initiated accession procedures, leaving very few Latin American countries outside the GATT system.

Leaders in the region understand that their countries need a successful outcome of the Uruguay Round at least as much as we do. Countries that only a few years ago were obstructing progress toward a more open trading system are now working with us in pursuit of trade and investment liberalization in the Round.

Let me cite some examples of leadership and participation in the GATT and the Round.

- The Brazilian GATT Ambassador has chaired the GATT Council and the Contracting Parties during 1990 and 1991 respectively. He currently leads efforts to initiate GATT work addressing trade and environmental issues.
- Latin and Caribbean GATT Ambassadors routinely chair other GATT standing bodies, including the Trade Concessions Committee, the Committee on Trade and Development, the Budget Committee, and various working parties that carry out the work of the Contracting Parties.
- The President of Uruguay hosted the launch of the Round in Punta del Este. Uruguayan negotiators were instrumental in building developing country support for the Uruguay Round agenda. Uruguay chairs the Trade Negotiating Committee that oversees the conduct of the Uruguay Round.
- Representatives of Uruguay, Brazil and Colombia chair a number of the Uruguay Round negotiating groups.
- All major Latin agricultural producers have shown strong support for agricultural reform as part of the Cairns Group. Their support on this issue demonstrated that agricultural reform is not just an issue between the United States and the European Economic Community.

### IMPLEMENTING THE INITIATIVE

The President's speech of June 27 laid out an ambitious long-term program for trade liberalization in the hemisphere. Over the months since the speech, we have been consulting with Members of Congress, business, labor and other interested groups in the United States, and with the Latin nations concerned, to begin the process of implementing the Initiative. We have reached some preliminary conclusions as to our basic approach and developed criteria for implementing the policy on a country-specific basis.

As to the general approach, we have five main tenets. **First**, as I have mentioned, the United States remains committed to the multilateral trading system. In fact, the success of the Uruguay Round is of the utmost importance to our free trade initiatives in the hemisphere. The United States cannot be the only market for Latin America, and outwardly oriented, competitive economic policies are the best guarantee of continuing growth and development.

I know that some have interpreted the Enterprise for the Americas as a U.S. contingency plan for a failure of the Round, or as an indicator of a trading system breaking down into blocs. In truth, the opposite is the case: the EAI and the Uruguay Round are complementary. We expect, for example, that a successful Round will set international baseline standards for services trade, in protection of intellectual property rights, in investment performance requirements, and other equally important areas, that will make the negotiation of free trade agreements in the hemisphere considerably easier.

The Round must also be the venue for dealing with the agricultural Gordian knot, for that certainly cannot be solved in the Western Hemisphere alone. On a more political level, we anticipate that a failure of the Round would lead to an atmosphere far more conducive to protectionist and unilateral solutions and more skeptical of trade liberalization.

**Our second tenet** is that the proposed negotiations on a free trade agreement with Mexico and Canada will come first. Mexico is by far our largest trading partner in Latin America, and a close neighbor with which we share many economic interests. As the President stated in announcing the participation of Canada in the NAFTA negotiations, such an agreement would be "a dramatic first step toward the realization of a hemispheric free trade zone." Provided "fast track" will be available and we begin the talks this summer as proposed, we think there is much to be learned there that will help us to define and develop the EAI free trade vision. Naturally, we would expect that whatever innovations in form or scope of an FTA that we develop in the NAFTA process would be carried over to the later Enterprise for the Americas agreements as well.

In the meantime, and *third of the tenets*, we are proceeding to conclude framework agreements on trade and investment with those countries and groups of countries that wish to work toward freer trade in the hemisphere. In fact, we began the trade liberalization process with Mexico in 1987 with the signing of just such a framework agreement.

Framework agreements, in and of themselves, do not bind the signatories to carry out specific trade liberalization commitments. They merely constitute a declaration of trade and investment principles, an agreement to consult on a regular basis, and an initial agenda for consultation. Illustrative of the enthusiasm for the President's initiative, Bolivia, Chile, Colombia, Costa Rica, Ecuador, Honduras and Venezuela have signed framework agreements with us thus far. We are negotiating about a half dozen more.

Completion of a framework agreement with a country or group of countries does not imply that the United States will be proposing free trade negotiations with such countries immediately. But it does establish a channel to explore various trade liberalization options and promote the Enterprise for the Americas vision.

**Fourth**, and perhaps least appreciated, is the fact that we see the process of creating a free trade area for the hemisphere as taking many years and stretching into next decade. The commitment to open markets completely and on a reciprocal basis is a difficult one for any government to make. We know there will be many complications to negotiating such arrangements between the United States and other countries in the hemisphere, and between the parties and those with which we already have or hope to have free trade arrangements (such as Mexico and Canada).

As we proceed to explore possible opportunities and as we consider approaches to our goal, we believe that it is essential to maintain a close consultative relationship with the Congress and especially with this Committee.

**Fifth**, and related to these negotiating challenges, we believe that we should be prepared to negotiate with individual countries and in particular with groups of

Latin American or Caribbean countries associated to remove trade barriers among themselves. The President made this point in his June 27, 1990 speech. " . . . [T]he U.S. stands ready to enter into free trade agreements with other markets in Latin America and the Caribbean—particularly with groups of countries that have associated for purposes of trade liberalization."

From the U.S. perspective, negotiating with an integrated, fully open market created by a number of contiguous countries is attractive because it will provide us with access to a larger market and move us towards regional integration. This does not rule out concluding bilateral agreements where these are appropriate (e.g., with Chile). Bilateral agreements can be a model and incentive for other countries to undertake needed reforms. Our overall objective remains to encourage countries in this hemisphere to increase trade among ourselves and reduce barriers to sub-regional trade as part of the overall process of promoting free trade throughout the hemisphere.

### MOVING TOWARD FREE TRADE—INDICATORS OF READINESS

Since the process of creating a hemispheric free trade system is likely to take many years, the timing and pace of free trade agreement negotiations with countries and/or groups of countries will assume considerable importance.

A variety of economic and political factors will affect our recommendations in this regard. Before proposing to initiate FTA negotiations with a country or group of countries, we will consider how such an agreement would be in the economic interest of the United States and contribute to our overall hemispheric policy objectives. Again, I want to emphasize that any decisions to proceed would not be taken without consultations with the Congress and, in particular, with the members of this Committee.

To be a realistic candidate for an FTA, however, a country or countries must have the institutional capacity to fulfill the long-term, serious commitments involved, and the economic policies required for the success of the FTA. In particular, we would expect that a prospective FTA partner be committed to a stable macroeconomic environment and market-oriented policies before negotiations begin.

The international financial institutions, in particular the Inter-American Development Bank and the World Bank, are ready to help the region's nations adopt structural and investment policy reform programs with this goal in mind.

Another aspect of readiness is a country's commitment to the multilateral trading system. As I have stated, we consider the Enterprise for the Americas Initiative to be compatible with, and supportive of, the multilateral trading system. Indeed, we are using the meetings of the EAI-related councils established under our framework agreements to coördinate our positions in the GATT. As to FTAs, we have been clear that we will only negotiate agreements fully consistent with the provisions of GATT Article XXIV.

To ensure this positive linkage between the GATT and the EAI, we will look to see that our prospective FTA partners have demonstrated progress in achieving open trade regimes and are members in good standing of the GATT. Such a policy will also be helpful in assuring our non-regional trading partners that the EAI is in their interest as well.

### ELEMENTS OF EAI-RELATED FTAS

Since we envision ultimately combining the various bilateral and plurilateral agreements to create a "hemispheric system of free trade," Enterprise for the Americas-related FTAs should be largely consistent in scope and terms with each other and with the evolving form of the NAFTA. In addition, free trade agreements in the hemisphere need to cover a variety of trade-related economic policies in addition to the classic tariff phase-out provisions, so as to minimize distortions and promote our common objectives. The following elements constitute our initial negotiating objectives, recognizing that in some respects agreements will be tailored to individual country circumstances:

- An EAI-related free trade agreement should aim to eliminate all tariffs on the trade between the parties to the agreement in products originating in the customs territories of the parties. Elimination of barriers on "substantially all trade" is a prerequisite for GATT consistency and makes economic sense as well. GATT-consistent tariff reductions should be implemented according to a specified phase-in schedule.
- There should be an analogous phase-out of non-tariff barriers.

• A free trade agreement should cover services, since services are becoming increasingly important in international trade, and are a source of U.S. competitive strength. Our goal would be effective market access on a broad scale.

• Likewise, a free trade agreement should provide standards for the treatment of investment, guaranteeing investors based in the parties to the agreement national treatment in the territory of the other party. Trade-distorting "performance requirements" imposed on investors also have no part in a free trade relationship.

• A free trade agreement should have a mechanism or mechanisms for settling disputes about the application of its terms and the treatment of investors.

• A free trade agreement should guarantee investors and traders that their intellectual property rights will be protected. We cannot foresee a free trade arrangement with a country that denies U.S. pharmaceutical patent holders the right to exploit their inventions, for example.

• Special provisions might be necessary to handle trade in and access to natural resources and natural resource-based products, given the often extensive state involvement and regulation of the natural resource field.

• A variety of other operational, technical or security provisions also will be needed in a free trade agreement. These would include: rules of origin and rules for the application of standards; public health and safety exceptions; essential security interest exclusions; safeguards; "docking" provisions for adding on future FTAs; consultative and dispute settlement procedures.

• Finally, a free trade agreement should discipline specific categories of government actions that could undermine the basis of the agreement. This includes provisions covering subsidies, state trading, trade restraints justified on balance of payments grounds, and the use of foreign exchange restrictions and controls.

As you can see, Mr. Chairman, negotiations of this nature will need to cover many issues, and they will not be lightly entered into by either the United States or its potential free trade partners in the hemisphere.

## THE IMPORTANCE OF FAST TRACK EXTENSION FOR THE ENTERPRISE FOR THE AMERICAS INITIATIVE

Many Latin countries have begun the challenging process of economic reform. But an FTA requires a deep commitment to opening markets permanently to competition.

Although Chile could be a candidate for the negotiation of a free trade agreement within the period of fast track extension, and has expressed a strong interest in an FTA with us, few, if any, other Latin countries are expected to be ready to negotiate free trade agreements with the United States within this time frame.

Although we are unlikely to enter into FTA negotiations with many Latin countries by 1993 (when extended fast track would expire), we need fast track to retain credibility of the President's EAI trade element.

Under fast track procedures and requirements, we could begin negotiations with a particular country or countries in the region that meet our standards. That example will have a positive demonstration effect on other countries in the region.

Without fast track, Latin countries will question our commitment to implement the longer term vision of hemispheric free trade. Their confidence in the EAI will fade, and we will lose the chance to craft a new relationship within the hemisphere.

The Congress can be assured that any negotiation of a free trade agreement under fast track procedures would not begin without full consultations and the running of the 60 legislative day advance notice period—as required by the Omnibus Trade and Competitiveness Act of 1988.

The decade of the eighties has been called the "lost decade" for Latin America. Debt problems and ill-advised economic policies halted economic progress in the region. But in many ways the decade also was a lost one for our interests: it is estimated that U.S. exporters lost as much as $100 billion in sales to the region from 1982 to 1988. It wasn't until 1988 that our exports climbed back to their 1981 level.

Today, trade with Latin America and the Caribbean offers real opportunities for U.S. exporters. Since 1986, U.S. exports to the region have climbed by over 70 percent—from under $31 billion in 1987 to over $54 billion in 1990 (Mexico included). Last year we supplied almost 55 percent of the total value of merchandise imported by the region—up from 46 percent in 1986. Trade and investment liberalization in Latin America and the Caribbean would stimulate further U.S. exports, creating more jobs for Americans.

We are on the threshold of a new, mutually advantageous economic and trade relationship with our neighbors in this hemisphere. With the Enterprise for the Americas Initiative, the United States has an unparalleled opportunity to create a hemispheric system of free trade for the new century. This achievement would be in our strategic interest as well as to our economic advantage. We look forward to working with the Congress to make this promise a reality.

---

PREPARED STATEMENT OF HON. DAVID C. MULFORD

It is a great pleasure to testify before you today on the subject of the Enterprise for the Americas Initiative. The Initiative has received broad support from Latin American and Caribbean leaders. It holds out the hope of a future of strong economic partnerships and sustained growth throughout the hemisphere. As we move forward to implement the Initiative, the Administration depends on the support of Congress to make the vision of the Initiative a reality.

Announced by President Bush last June, the Enterprise for the Americas Initiative (EAI) is designed to deepen and expand for our mutual benefit the wide array of trade and investment ties which link the United States with its neighbors in Latin America and the Caribbean. This is a region with which we share a common cultural heritage, and whose many new leaders have shown a strong commitment to democratic values and market-based economic reforms.

The President tailored his Initiative to the concerns of Latin American and Caribbean countries by proposing action in three areas of vital importance to them—trade, investment, and debt. The Initiative rests on these three pillars, each of which represents a major priority for action.

ADVANCING FREE TRADE

As we work to expand trade through the Initiative, our long term goal is to establish a hemispheric free trade area. In announcing the Initiative, President Bush stated that the United States stands ready to enter into free trade agreements (FTAs) with Latin American and Caribbean countries, in particular with groups of countries that have associated for the purpose of trade liberalization. The first step in this process is the FTA we propose to negotiate with Mexico and Canada. We are also negotiating framework agreements with individual countries and groups of countries in the region to address technical issues and begin to reduce barriers to trade.

Ambassador Katz, in his testimony, will explore with you in greater detail our efforts in this area and, in particular, the importance of gaining fast-track negotiating authority. For my part, I want to emphasize the importance of the trade pillar to the success of the Enterprise for the Americas Initiative and, more fundamentally, to the future of relations between the United States and its neighbors.

The trade pillar of the Initiative cannot be considered in isolation. Rather, it should be viewed in terms of its contribution to the overall objective of the Initiative—to create a partnership with Latin America that will lay the foundations for long-term growth. By itself, a free trade agreement would not necessarily succeed in bringing substantial economic benefits. But free trade is a cornerstone of a broader economic system based on market principles. It is that broader system that the Enterprise for the Americas Initiative seeks to foster jointly through its trade, investment, and debt pillars.

For the relatively small Latin American economies to open themselves to imports means to accept a set of relative prices determined by market forces and based on economic fundamentals. The discipline of market prices limits the latitude to use government intervention to distort resource allocation for the benefit of the few and the detriment of the overall economy. For example, opening borders to imports makes it increasingly difficult to subsidize loss-making government enterprises, protect industries through restricting new competition, and set prices by decree. Clearly, a commitment to free trade reflects a more fundamental commitment to a market-based economy.

For years we have been urging the countries of Latin America to eliminate barriers to trade and investment—barriers that impede their own economic growth. Now, under the Initiative, we are offering them a tough but fair deal—they commit themselves to effective market-oriented policies, and we undertake to negotiate reciprocal free trade relationships based on a balance of benefits and obligations.

The deal is tough because successful free trade agreements will require greater reform in Latin American countries than in the United States. The reason is simple: our barriers to trade and investment are far lower than theirs. For instance, our average tariff is less than half that of any country in Latin America; our investment climate is far more open; our trade in services is virtually free of restrictions; and we have a modern, effective system of intellectual property protection.

But why should Latin American countries accept agreements which will require them to shoulder the greater burden of policy reform? Ten, five, or even two years ago, the magnitude of the reforms required would have given them pause. Today, however, there is an emerging consensus in Latin America that the reforms implied by free trade agreements—broader macroeconomic and structural reforms as well as elimination of barriers to trade and investment—are prerequisites for renewed economic growth.

Those countries that have already embarked on reform are interested in seeking reciprocal elimination of trade barriers from their trading partners. In this sense, the timing of the EAI is crucial. It has met with such an enthusiastic response in Latin America because it harnesses an underlying momentum. But, while these countries are taking bold steps for their future, the temptation to slip back is ever-present. Our willingness to negotiate reciprocal free trade agreements would encourage ongoing reform and liberalization in the region. It offers a way to codify, make more permanent, and increase public support for these reforms.

Why is this a fair deal for the United States? What would we gain from free trade with Latin American countries under the EAI? First, in terms of U.S. trade policy interests, we benefit from elimination of barriers to our exports of goods and services. Because Latin America has higher barriers to trade and investment than we do, we stand to gain more in a direct way than the Latin American countries in a direct way from elimination of those barriers.

Second, we will gain from having more prosperous neighbors, and therefore more valuable trading partners, as reforms give rise to faster growth. The U.S. currently supplies about forty percent of Latin American and Caribbean imports—as established trading partners, we are well positioned to benefit from increased capacity to trade on the part of Latin America and the Caribbean. Third, open, dynamic economies will be stronger partners in the world trading system. Their success will encourage other countries to adopt similar policies in international fora, like the GATT. Finally, we have an interest in the prosperity of Latin America that goes beyond immediate economic benefits—an interest that rests on a shared heritage, ties of family and culture, and geographical proximity.

Our vision of a hemispheric free trade area is a realistic one. The first step towards this goal, discussing a free trade agreement with Mexico, has been made possible by the remarkable reforms that have transformed Mexico's economy in the last few years. These reforms are being mirrored in other countries in the hemisphere. Fast track authority is essential for us to seize this moment, to build upon and cement this momentum towards more open economies and faster growth throughout the hemisphere.

Without fast track we will miss this unique opportunity to form a new partnership in the Western Hemisphere.

INCREASING CAPITAL FLOWS TO THE REGION

The investment pillar of the Initiative zeroes in on the importance of increasing capital flows to Latin America and the Caribbean.

A number of countries in the region have made substantial progress in implementing macroeconomic and structural reforms. These are fundamental steps toward stronger and more vibrant economies. Without the needed capital to finance growth, however, they will not experience the full benefits of market-oriented economic reform.

The need to attract capital in order to build upon reforms already underway is at the heart of every country's development challenge. Resources in today's world are limited. Commercial banks are no longer extending loans that provide broad support for economic growth. The lessons of the 1980s taught us that more debt is not the answer, yet countries now face the challenge of meeting their financing needs in the absence of significant commercial bank lending. Creditor governments also face constraints on their ability to provide economic assistance, while events in Eastern Europe and the Middle East have added heavily to demands for such assistance.

Private investment is therefore receiving new priority as a source of capital for development and growth. Latin American and Caribbean countries must compete more aggressively to draw the interest of investors and to recover the savings of their own people. To help countries undertake this challenge, we proposed that the Inter-American Development Bank (IDB) establish a new investment sector lending program. This program will provide guidance and financial support for specific measures to open investment regimes.

The IDB is already moving forward with this program. Negotiations of investment sector loans have begun with four countries, and we understand that the first loans are expected to be ready for consideration by the IDB Board of Directors in June.

Two additional countries are planning to begin discussions with the IDB in the near future. A number of other countries have also expressed interest in pursuing IDB investment sector loans.

Loans extended under this program will make a critical difference in the competition for capital. Additional, more directly targeted support is also needed, however. For this reason, President Bush has proposed creation of a new Multilateral Investment Fund, administered by the IDB. This Fund would direct resources to support specific investment reform actions and would help ease some of the burden of undertaking these measures.

While existing institutions, including the IDB and the Inter-American Investment Corporation, continue to play a critical role in the overall adjustment and development efforts of Latin America and the Caribbean, we believe that a new Fund is required to provide the concentration of financial resources needed by countries poised to make a major commitment to radically overhauling and opening their investment regimes. We envision that this Fund would place special emphasis on smaller countries in the region, such as those in Central America and the Caribbean.

Resources will be channeled through three facilities in the Fund.

- The Technical Assistance Facility will help finance technical assistance to facilitate privatization and other investment-related policy reforms. It will also assist government efforts to improve vital business infrastructure, without which no amount of policy reform will enable a country to attract additional private investment.
- The Human Resources Facility will fund grant assistance to moderate social dislocations resulting from investment reforms. With this kind of support, governments can pursue reforms aggressively within a window of opportunity while minimizing the potential for social unrest and other pressures on emerging democracies.
- The Enterprise Development Facility will channel market-priced resources through non-governmental organizations and other financial institutions to stimulate creation or expansion of small and micro-sized enterprises. In this way, the Fund will help entrepreneurs access capital and make productive contributions to these economies.

Our goal is to establish a Fund of $1.5 billion over a five year period. We are seeking authority from Congress for a U.S. contribution of $500 million over five years. Based on extensive discussions with the IDB and other creditor governments at the recent IDB annual meeting, we are optimistic that other non-borrowing members of the IDB, many of whom have strong traditional ties with the region, will provide the remaining resources. Most notably, Japan has indicated that it will contribute an appropriate amount to the Fund. In the context of a shared commitment among donors to help countries take the steps to compete for capital, I hope we can count on your support for the U.S. contribution.

BUILDING ECONOMIC CONFIDENCE: THE NEED TO ADDRESS DEBT BURDENS

The overhang of external debt has constrained the resources available for growth and tested the resolve of nearly every government in Latin America and the Caribbean. By easing the burden of debt for countries committed to necessary economic reforms, we can help them attract new investment capital and reinforce the rewards of sound economic policies.

The debt pillar of the Enterprise for the Americas Initiative takes such a pragmatic approach. By proposing to reduce bilateral debt owed to the U.S. Government by eligible countries, the Initiative complements international efforts under the Brady Plan to address commercial bank debt problems. Reducing bilateral debt will be particularly important for the relatively small countries of the region that owe a substantial portion of their external debt to official creditors, rather than to commercial banks.

Last year's farm bill provided the authority to reduce PL-480 debt for countries pursuing strong economic and investment reform programs and to channel local currency interest payments to environmental projects in each country. We also have the approval of the appropriators to proceed. The President has signed an Executive Order providing for implementation of this authority.

Several countries—including Chile, Jamaica, and Bolivia—are well positioned to qualify for PL-480 debt reduction in the next few months. Other countries could also move to qualify in the near future. The potential for bilateral official debt reduction has been welcomed throughout the region. Countries are eager to benefit; we are working with them to establish eligibility and will begin discussing reduction of their PL-480 debt once they meet necessary conditions.

To offer the full potential benefits of the debt reduction proposed under the Initiative, however, we must gain authority from Congress to undertake reduction of AID debt. PL–480 debt constitutes only about one-fourth of the $7 billion in concessional debt owed to the U.S. by countries in the region. A far larger share of this debt (some $5 billion) is owed to AID. Substantial debt relief will therefore need to involve action on AID debt as well. We are also seeking authority to sell a portion of Eximbank loans and CCC assets in order to facilitate investments in equity, environmental, or development projects in eligible countries. These swaps will help reduce the stock of non-concessional, market-rate debt owed to the U.S. while promoting productive contributions to debtor economies.

I want to emphasize that by reducing bilateral official debt, we hope not only to ease countries' financial burdens and help restore the confidence of investors but also to provide significant support for the environment. Interest payments on reduced concessional debt obligations will be made in local currency into an Environmental Fund in the debtor country. The resources in each Fund will be programmed by a local administering body composed of representatives from the debtor country, the U.S. government, and local non-governmental organizations.

Similar government cooperation with non-governmental organizations will characterize the Washington oversight of this process. The Environment for the Americas Board will advise the U.S. Government on negotiation of environmental framework agreements, ensure that local administering bodies are appropriately constituted, and review annual programs and reports on operations prepared by each local body. We look forward to working with the environmental community, which has developed valuable expertise both on funding projects and on building community support for environmental protection and conservation.

By creating a dedicated stream of payments to support environmental projects, the Initiative can help assure ongoing support for sustained environmental progress. It will also make an important contribution to building institutional capacity in local organizations and, thereby, to generating long-term grass roots support for protection and preservation of the environment.

## REALIZING A NEW VISION FOR THE HEMISPHERE

Strong, vibrant Latin American and Caribbean economies will benefit our hemisphere and the world as a whole. To respond to the efforts underway in Latin America and the Caribbean, we must be prepared to move forward on each element of the Initiative—trade, investment and debt.

To work credibly with other countries toward a hemispheric free trade area, it is critical that we gain fast track negotiating authority. To proceed with support for the opening of investment regimes and the reduction of bilateral debt, we also need authority from Congress. The President transmitted on February 27 a legislative proposal that would provide the latter authorities; positive action on this legislation will send a strong signal to Latin America and the Caribbean about U.S. commitment to following through on the Initiative.

The United States shares with its neighbors in Latin America and the Caribbean high hopes for the future. As they turn toward stronger, market-oriented economies, leaders throughout the region are enthusiastically embracing our common objectives of enhanced growth and prosperity. The United States must also do its part. I hope we can count on your support.

## RESPONSES OF UNDER SECRETARY MULFORD TO QUESTIONS SUBMITTED BY SENATOR BAUCUS

*Question.* How was this AID debt created? To what extent is it due to faulty economic assumptions on the recipient country's capacity to repay?

*Answer.* The Agency for International Development (AID) has made Development Assistance and Economic Support Fund loans for over twenty years. These loans were intended to assist borrowing countries to participate in strong economic growth, and to expand export markets and investment opportunities for United States businesses. Many countries in Latin America and the Caribbean have encountered unanticipated difficulties in repayment of their AID obligations, for a variety of reasons which include stagnant domestic economies and declining export markets.

*Question.* How is the current AID program structured to insure that loan funded activities will generate the required revenues to repay these loans?

*Answer.* Due to the problems encountered with repayment of past AID obligations, AID no longer provides Development Assistance or Economic Support Fund loans. Instead, all AID assistance is now implemented on a grant basis. As a result, we will not be providing new AID loans at a time when we are reducing AID obligations under the Enterprise for the Americas Initiative.

*Question.* Wouldn't the AID loan program be better served by undertaking developmentally sound capital projects that would insure a revenue flow adequate to service the debt obligation being sustained for that activity?

*Answer.* Because AID assistance is no longer being provided in the form of loans, it is not useful to evaluate AID assistance in terms of whether a project produces a revenue flow adequate to service an underlying debt obligation. AID does conduct rigorous cost-benefit analysis of its grant assistance in order to ensure effective use of scarce foreign aid resources. However, much AID assistance is long-term development aid for projects such as rural health care, which do not yield immediate financial returns.

## COMMUNICATIONS

---

THE PROCTER & GAMBLE CO.,
*Cincinnati, Ohio, May 7, 1991.*

Hon. LLOYD BENTSEN, *Chairman,*
*The Finance Committee,*
*U.S. Senate,*
*Washington, DC.*

Dear Mr. Chairman: This Company strongly supports the Enterprise for the Americas Initiative in general, and specifically its concept of a Western Hemisphere Free Trade Agreement. We believe that it will strengthen the consumer economies of both the United States and the other participating countries, and ultimately create opportunities for our business. Extension of the Fast Track procedure for ratifying or rejecting trade agreements will be necessary to negotiate a sound agreement. We also believe that negotiation of a GATT-consistent Western Hemisphere Agreement will be both a stimulant to the Uruguay Round and a logical supplement to a multilateral trading system.

In recent years there has been a significant move away from economic policies based on import substitution and government intervention to more open, market-oriented policies. These policies accelerate the growth of consumer income in these countries and provide us with the opportunity to expand our business. For example, our exports from the U.S. to our Latin American subsidiaries increased from a little over $90 million four years ago to $200 million in our last fiscal year, and we expect them to exceed $250 million by 1992—an increase of 185% in five years. These exports today support about 4,000 jobs in the U.S.—up from under 2,000 four years ago.

While we have not yet made studies of the specific opportunities a hemispheric free trade agreement would create for us, we have done so for a Mexican agreement. Extrapolating from that work and from our overall Latin American experiences, a further 125% increase to 9,000 U.S. jobs supporting exports to our Latin American operations, as the result of a hemispheric agreement, is a conservative estimate.

A hemispheric agreement must not only encourage permanence in market-opening economic reforms, but it must address issues in addition to the standard removal of tariffs and commonly recognized nontariff barriers. These include:

### PRICE CONTROLS

Price controls need to be eliminated. They are ultimately counterproductive to controlling inflation. They are a disincentive to investment which, in turn, results in shortages—and then further price increases. An appropriate way to address the problem could be in a provision expansion on existing GATT language on price controls (cf. Article III, paragraph 9).

### FOREIGN INVESTMENT

An Agreement should provide for right of establishment, national treatment, right to repatriate capital, and prohibition of expropriation without market value compensation, as well as prohibiting trade-related investment (e.g., trade balancing, local unity, export performance, local content and other such requirements, and also remittance and foreign exchange access limitations).

TECHNICAL STANDARDS

There is a need for a definite procedure for elimination of trade barriers caused by differences in technical regulatory standards between participating countries. While the U.S. Canada FTA has a provision on this subject, the lack of a defined process for identifying and removing these barriers has proven to be a clear weakness. As a result, both countries are losing economic benefits that would be achieved if such regulatory conflicts were eliminated.

INTELLECTUAL PROPERTY

An agreement needs to assure patent terms equivalent to developed country standards (e.g., 17 years from grant, or 20 years from filing); provide for full product coverage, including pharmaceuticals limit compulsory licensing to declared national emergencies and adjudicated competition law violations; assure that imports fulfill working requirements; and preclude exhaustion of patent rights on third party sales. In addition, patent approval systems need to be simplified and streamlined and enforcement of intellectual property rights, especially for trade secrets, needs to be strengthened.

The most effective way to achieve these results appears to be through the negotiation of a very comprehensive North American Free Trade Agreement. This Agreement could then be held, in effect, "open for signature" by other Latin American countries with limited fine-tuning for specific needs, particularly appropriate tariff elimination staging.

Negotiating individually with separate countries would likely result in inconsistent agreements that result in trade distortions, circumvention and even outright fraud. The political and economic history of Latin America suggests that a third approach that has been discussed, namely waiting for groups of Latin American countries to negotiate regional free trade areas and then negotiate with the United States, not only has similar risks to the bilateral approach, but is unlikely to happen in any foreseeable time-frame.

Achieving a hemispheric agreement is important, not just for the economic development of the countries concerned, but also for competitiveness relative to Europe. The European Community will likely continue to expand to include the European Free Trade Area and several Eastern European countries, creating a major economic block operating without intercountry barriers. Japan is taking a somewhat different approach in Asia, but with many of the same results.

Achieving an agreement that is in our national interest will require all countries involved to make difficult political concessions. Other countries are unlikely to make such concessions if they are concerned that the reciprocal benefits they have received can be deleted by amendments on the floor of Congress. Therefore, the Fast Track process, which does include substantial Congressional participation, including the right to reject an undesirable agreement, is essential to achieving a sound hemispheric agreement.

We very much appreciate this opportunity to submit our views.

Very sincerely,

D.J. Elliott, *Associate Director, International Trade.*

O