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THE U.S. AND LATIN AMERICA IN THE NEW MILLENNIUM: OUTLOOK AND PRIORITIES

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BEFORE THE

SUBCOMMITTEE ON
THE WESTERN HEMISPHERE

OF THE

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WEDNESDAY, MARCH 15, 2000

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 1:30 p.m., in room 2200, Rayburn House Office Building, Hon. Elton Gallegly (chairman of the Subcommittee) presiding.

Mr. BALLENGER. [Presiding] Let me just say hello to everyone and I apologize. It seems like they schedule us rather tightly around here and luckily for me I beat Elton Gallegly here so without further ado let us begin. I have no opening statement. Do you have an opening you would like to make?

Mr. DELAHUNT. No, I do not, Mr. Chairman, except thank you for allowing me to sit in on this particular hearing. As you know, I am not a Member of this Subcommittee, but as you well know, we share a binding interest in the work of this particular Committee, particularly as it impacts Central America and Latin America. It has been a distinct pleasure to work with you on the issues that I know we will be discussing here today.

Mr. BALLENGER. If I may, I would like to recognize several guests that are here. First of all, Ambassador Barbosa of Brazil, thank you sir, glad to have you with us. Also Ambassador Fernandez of Bolivia who is much better looking than most Ambassadors. Good to see you.

I understand Ambassador Toro Hardy is here from Venezuela, good to see you sir. Are there any other Ambassadors that I have missed? Nobody prepared me? I hope we have a constructive hearing for all of you.

I would like to remind all of the witnesses that all of your written statements will be entered in the record in their entirety. I guess I ought to introduce the witnesses one at a time: First, Peter Hakim, President of the Inter-American Dialogue. Susan Kaufman Purcell, Ph.D., Vice President of the America Society. Sidney Weintraub, Ph.D., William E. Simon. Chair in Political Economy, Center for Strategic and International Studies. And Jennifer McCoy, Ph.D., Director of Latin American and Caribbean Program, The Carter Center. We might have worked in a couple of elections together. Yes ma'am, I thought so.

We welcome you all here and again I apologize for the lateness and if I may, Mr. Hakim, go ahead.

STATEMENT OF PETER HAKIM, PRESIDENT, INTER-AMERICAN DIALOGUE

Mr. HAKIM. Thank you very much. Mr. Chairman, I welcome this opportunity to testify on Latin America. Let me say I testified before the Full Committee back in 1993, and I happened to just go back to my notes on that, and let me just say that we have made some progress, but not enough I believe.

In any event, this is a time of exceptional opportunity for the United States and Latin America. In fact, I cannot recall a time when there was more Latin American interest in cooperating with the United States in a range of different ways. There is more opportunity now than ever to achieve a cooperation of benefits between Latin America and the United States.

Unfortunately, my sense is the U.S. has not been taking very good advantage of these opportunities. Let me say that when I talk about Latin America I include the Caribbean. With the Ambassador here, I wanted to make sure that was clear.

What has happened in Latin America over the last 15 years is really remarkable. In a region that had been mostly governed by dictators, it is now mostly, governed by elected governments. Most of them are firmly in place. I just came back from the inauguration of President Lagos in Chile. It was an extraordinarily impressive affair. Also, in a region that was once dominated by state-led, inward-looking economies, we now have open, globalized market economies. It is precisely these kinds of changes more than anything else that have opened up the way for a real partnership or series of partnerships with the United States.

Despite the move in most countries toward democracy and free markets, the changes have not produced the expected or promised results. Ordinary Latin Americans are losing confidence in their governments. In fact, as I have mentioned in the report, democracy and market economics are still on trial in many countries. Let me add that there are four central challenges that most Latin American countries have to meet over the next period. The first crucial challenge is to achieve sustained economic growth. Most of them have been extraordinarily successful in the fight against inflation, but now they need to lift up their growth rates to at least 4 or 5 percent a year. That is the minimum according to the World Bank necessary to begin reducing poverty. Clearly, growth rates in the region have not reached that point. They were just above 3 percent during most of the 1990's, way below the Asian tigers—despite the crisis of recent times—and even less than Latin America achieved in the 1960's and 1970's.

The second is to improve the performance of their democratic institutions. In country after country, institutions like congresses, political parties, judicial systems are just not functioning as well as they should and in some countries we can see actually some slippage. Peru, for example, has an autocratic president who is about to win what many would say is an unconstitutional third term in an election that is certainly far from fair.

In Ecuador, there was recently a military coup and the country avoided by the skin of their teeth having a military junta take power.

A third challenge is to improve public services including education, health, and reducing the amount of criminal violence. Governments basic institutions and basic public services are still not working as they should in most countries.

The fourth and last challenge which requires meeting the other three is to begin reducing the poverty and inequality that dominates most of the region. Due to slow economic growth most Latin Americans in most places are just as poor as they were almost 20 years ago.

Let me say that all of these are mainly challenges for the citizens, governments, and industry of each country. However, U.S. policy, can reinforce democracy and economic progress. It can strengthen the position of those who are economic and political reformers.

In my written testimony I have also listed 12 initiatives that the U.S. Government could take, most of them not very high cost. In fact, some of them have almost immediate benefits to the United States.

Let me just summarize three or four of the proposed initiatives here. The economic side is particularly crucial. The U.S. needs to have congressional approval of Fast Track so that we can move ahead with free trade and expand NAFTA to the rest of the hemisphere. This should be the anchor or cornerstone of broader cooperation. The U.S. also should be thinking beyond trade and toward economic coordination more generally, with the prospect of moving toward some common economic goals for the hemisphere, goals similar to Maasricht, a convergence over a longer period of time. There ought to be a joint enterprise to make trade and investment for everybody easier. This should allow for coordination on crisis prevention, the kinds we saw in Mexico and almost in Brazil and to which we responded well. However, could have done a better job if we had helped both countries avoid crises in the first place.

Another initiative involves, Mexico which is clearly the Latin American country most important to the United States for a whole range of reasons. I believe Mexico is one of the countries with which we have established the most successful foreign policy. We have had an enormous number of conflicts with Mexico, but in issue after issue there have been institutional mechanisms in place to manage those conflicts and to move cooperation forward. I believe that this is the crucial point in the U.S.-Mexico relationship: that it is being institutionalized.

Also, we ought to move very quickly to bring the Caribbean Basin countries, Central America and the Caribbean into North America. It is the fourth part of North America. There is no reason why it should not be part of NAFTA.

In South America, Brazil is clearly the big player. It is mainly through economic cooperation of all sorts that we ought to base our relationship with the country. More broadly, Brazil ought to be our ally in a whole range of instances, whether it is in the Free Trade Area of the Americas, the WTO or in other international institutions. Brazil is after all a big important regional power.

I will not speak about Colombia, except to say that the Pastrana government needs bolstering. That means we have to work with

him and improve the capacity of the Colombian military to promote negotiations, protect human rights and move forward.

Finally, I think that there is some need now to begin to find better ways of working with Latin American countries to respond to elected regimes who do not follow the rules of democracy as I have discussed in the case of Peru.

In sum it is not hard to show that a more prosperous, stable and democratic Latin America is in the U.S. interest. It is easiest to show in the case of Mexico and the Caribbean. However, this is true for the entire region. The simple truth that a prosperous, stable and democratic Latin America is in the U.S. interest ought to be the central basis of our policy toward the hemisphere.

Thank you.

[The statement of Mr. Hakim appears in the appendix.]

Mr. GALLEGLY. [Presiding] Thank you very much, Mr. Hakim. I apologize for coming in here a few minutes late today, as I am sure most of my colleagues can understand, there are days that are bad and there are days that are worse. Today happens to be one of the worse days, with all of the things in which we are involved. We have three markups going at the same time and I would, with the indulgence of my colleagues, like to have a brief opening statement. I also have a major piece of legislation that I have to address this afternoon at 2:30, so I may defer to my colleague, Mr. Ballenger from North Carolina. With my colleagues' indulgence, I would like to kind of halfway explain what the purpose of this hearing is all about today if they have not figured it out already or at least for the benefit of those that have a question.

As we enter the new millennium, there seems to be a disturbing trend of uncertainty about Latin American stability and direction coming from many of our international analysts. Likewise, there seems to be a more negative critique of how United States policy is, or should be, reacting to the current environment throughout the region.

Three years ago this Subcommittee held a similar hearing on Latin America with a distinguished group of witnesses, very much like yourselves. At that hearing I posed several questions.

To what extent has democracy really taken hold in Latin America?

How strong are the governments of the region?

How extensive have economic reforms been in Latin America?

How likely are these reforms to bring true open markets and sustainable economic growth throughout the region?

How will issues like poverty, drugs, corruption and crime influence the abilities of Latin democracies to succeed?

The general consensus at the time could have been described as one of "cautious optimism."

Clearly, there were high expectations resulting from the growing democratization in the region attributable to the many free and open elections taking place; with the implementation of market-oriented economics; and first generation political and economic reforms taking hold. Additionally, U.S. policy seemed to be pro-active, having seen the Mexicans through the peso crisis, and the convocation of the Summit of the Americas, promoting economic integra-

tion through policies such as NAFTA, CBI and the concept of an FTAA, progress seemed to be on course.

Today, however, the attitude seems to be different. The high expectations seem to be turning to disappointment. The bumps in the road predicted by most of the witnesses then, have come true in varying degrees today.

Political uncertainty lingers in Venezuela, Peru and Paraguay; continuing violence plagues Colombia; recent unrest racked Ecuador; the escalation of tensions between Belize and Guatemala as well as Nicaragua and Honduras, over borders, have become cause for concern.

In a recent public opinion poll taken by the MORI research firm in Chile, people of only two Latin America nations, Costa Rica and Uruguay gave democracy an approval rating of more than 50 percent.

On the economic front, overall growth seems too slow; economic volatility still prevails; little progress has been made against poverty, corruption or crime; and, for the most part, the institutions which are supposed to be the strength of a long-lasting democracy, seem marginal at best.

U.S. policy toward the region has been characterized by some as being "fatigued", "reactionary", "bad news oriented", or just plain "disinterested."

So where are we?

I suspect the answers lie somewhere between a statement Senator Coverdell made in a recent speech when he said that "with the proper nurturing of the political and economic relationships among nations of the Western Hemisphere the next century will be the Century of the Americas" and the question raised by Mr. Hakim in a recent article where he wrote "Is Latin America Doomed to Failure?" I hope it is more to the former rather than the latter.

In the end, only time will tell. However, our hearing today will attempt to at least lay out the issues and parameters of the problem and hopefully begin to identify ways in which we can help ensure that Senator Coverdell's view ultimately prevails.

[The statement of Mr. Gallegly appears in the appendix.]

Mr. MENENDEZ. Mr. Chairman, in fairness to the panel, I will just ask unanimous consent to have my statement be entered into the record.

I just want to make one overarching comment so as they make their comments, hopefully, we will hear them weave it into their presentation. It seems to me, that as someone who has now spent 7 years on this Committee, this being the 8th year that I have been here on the Western Hemisphere Subcommittee, that we have some serious concerns. We have some things to celebrate with the hemisphere, but we still have some serious concerns.

Earlier today we had the AID Administrator speaking before the Full Committee and I asked him a series of questions about what, some of our policies are. I mean can we with trade alone expect to control the illegal migration? Can we, with trade alone, seek to reduce the flow of illicit drugs? Can we, with trade alone, help consolidate fragile democracies? Can we, with trade alone, seek to reduce poverty, the spread of infectious diseases or the environment? He answered no to all of those which I am glad to hear him say

which means that the AID budget which is a third of what it was a decade ago, simply is insufficient to try to meet our goals in all of these national interests, not just of our neighbors to the south, but in the national interests of the United States.

I would hope that we hear from our panelists why they think that we cannot create a constituency for aid here with the neighbors so close to our south being where the greatest expansion of trade possibilities are as well as with some of the greatest risks in terms of all of the moneys that we have spent to consolidate and promote democracy. Why can we not achieve a greater constituency to promote the necessary resources for the consolidation of that democracy?

Last, in my other Committee assignment as a Ranking Democrat on the International Economic Policy and Trade Subcommittee, I am concerned about U.S. companies dealing with Latin American countries and with the manner in which they are being treated. We want to trade with Latin America. We hear the advocacy for a free trade zone, the advocacy for Fast Track and yet we continuously hear from countries with which we have bilateral relationships, of U.S. companies who are treated rather rough, shoddily in terms of the system of law, the system of operation with those countries. I am concerned about issues in Peru. I am concerned about issues in El Salvador. I am concerned about issues in various countries and I am going to ask the Chair Lady to hold a hearing, particularly on Latin America and the business relationships.

We want to work with our Latin American neighbors. There is no one who is a bigger advocate of that than I. But they must understand also that it must be clear, transparent and on an equal basis. I thank you for the opportunity and ask that you include my full statement in the record.

[The statement of Mr. Menendez appears in the appendix.]

Mr. GALLEGLY. Without objection. Thank you. Our next witness is Dr. Susan Kaufman Purcell.

Dr. Purcell?

STATEMENT OF SUSAN KAUFMAN PURCELL, PH.D., VICE PRESIDENT, AMERICAS SOCIETY/COUNCIL OF THE AMERICAS

Dr. PURCELL. Thank you, Mr. Chairman. In my written testimony, I attempted to address the bifurcation of views concerning Latin America that you mentioned in your opening statement and to explain that the different views depend on whether you see the glass as half full or half empty. This in turn depends on whether you are looking ahead or looking back. If you look ahead and compare Latin America to developed democracies and developed economies, then Latin America falls short and people will be pessimistic.

On the other hand, if you compare Latin America to where it has come from in the last couple of decades, then I think you come out feeling that the glass is actually more than half full. A lot of the problems that we see in Latin America today have been around for a very, very long time. Latin America has been characterized by poverty for hundreds of years, by an inequitable distribution of resources, by undemocratic governments and the like. There was a time several decades ago when Latin America moved to more democratic kinds of government and even to more open economies

and toward regional integration. These developments did not last. However, they occurred in a different context. In my statement I try to show what is different this time that should lead us to be somewhat more optimistic about the viability of both the democratic and the economic reforms. At the same time I would be happy to say a few words about Congressman Menendez' concerns too, although those are not specifically in the statement. So I will rapidly summarize my statement and then say a few words about Congressman Menendez' concerns.

First, I lay out the new Latin America. I will not repeat what Peter Hakim has already said. Military regimes have been replaced by democratically elected ones. Formerly closed economies are now more open and integrated into the global economy. Intra-regional trade, as a result of developments such as NAFTA and MERCOSUR, has grown, and relations with the U.S. are considerably friendlier than during the Cold War years.

As I just mentioned, these are all not new phenomena so why then should we be more optimistic this time around? I think it is because there is a different character to these processes this time. The electoral processes of the new democracies, for example, are stronger, more transparent, and less capable of being manipulated. Politics is far less ideologically polarized in Latin America this time around. The left and the right have both moved toward the center. Incumbent governments defeated in elections have been willing, for the most part, to give up power even if, as in Argentina they tried to modify the constitution first. When this failed, as in Argentina, President Menem stepped down.

Democracy also no longer exists mainly at the national level. There is more grass roots democracy, more democratic competition at all levels, more activity on the part of so-called nongovernmental institutions many of which did not exist 20 or 30 years ago.

People are also more informed today as result of technological advances with which we are all familiar. The opening of the regions' economies is more durable than in the past, in part, because of external developments. Protectionism is not as viable in the new global economy and it is too costly for many of these countries to pursue.

Also, despite the fact that the more open economies have not lived up to the expectations of their people, in most countries now there is a critical mass that has benefited enough from the economic reforms to make them sustainable. The most dramatic reform in this regard which we often do not hear enough about is the virtual elimination of inflation. This has occurred in countries that were characterized not only by inflation but even by hyper-inflation that reached 5,000 percent not so long ago.

Economic integration is also occurring in a different context this time. Last time, in the 1960's, it was in the context of protectionism. Latin America integrated in order to build a wall around the whole region. This time it is in the context of more open economies. The goal is to facilitate greater integration into the global economy. Market forces, rather than negotiated government decisions are for the most part determining what is produced and what is not produced. Also, relationships between the U.S. and Latin America are more constructive, in part because of the end of the

Cold War. Latin America can no longer play U.S. and Soviet Union off against each other. The U.S. is now the main game in town. I also think that the end of the Cold War allowed the United States to de-emphasize security issues and to focus more on economic issues. In addition the American people are going to want more and better relations with Latin America in the future to the extent that Latin America remains democratic. The American people do not seek close relations with military regimes, although certain groups in the United States might do so.

Many vulnerabilities remain despite this progress. Peter discussed many of them and so I will not repeat them now. We all know that the rule of law is a big problem in the texture of the new democracies. I mention this in my paper under the section called "What needs to be done".

I will only note that the problems in Latin America today, either come from the past or exist not because the reforms have gone too far and too fast, but instead because they have not gone far enough. Those countries in Latin America that have progressed the most in terms of economic growth and integration into the global economy are precisely the ones that have gone the furthest in opening and restructuring their economies.

Now, what can the United States do to help? Taking into account Congressman Menendez' remarks, I still would focus my recommendations around the need to revive U.S. leadership in a push for a Free Trade Area of the Americas. I do not believe, as you do not believe, Congressman Menendez, that free trade solves everything. However, I do think that Mexico is a wonderful example of how free trade provides the context that allows a lot of the other things that we would like to see happen in Latin America possible. I do not have the time to go into detail right now. I understand that we are in a Presidential election year and I understand that the presidency for the last 8 years has been held by a Democrat and I understand that the AFL–CIO is a key supporter of the Democratic Party, which puts limitations on what the Clinton Administration has been able to do in terms of pressing for Fast Track, expanding NAFTA, and working for a Free Trade Area of the Americas.

I think, however, that both Mr. Gore and Mr. Bush are strong supporters of free trade and could be persuaded to revive the Fast Tract initiative. Also, I think the AFL–CIO is changing somewhat. Several weeks ago it changed its position on legal immigration from Latin American countries. So I think there is a new opportunity to expand hemispheric free trade. I think that the focus should not be on creating jobs or making money, as it was in the past. Instead the focus should be on economic integration and free trade as ways of reinforcing and consolidating democracy, helping to bring about more social justice and the kinds of governments and standards of living that we would like to see. The focus should not be on losing or creating jobs because such developments have less to do with NAFTA than, for example, with the global economy. The new approach needs to explain that NAFTA has been a success, not a failure. It should not be a dirty word to talk about NAFTA and all the good things that it has brought to Mexico and the United States.

Now let me just review a few more issues very quickly ——

Mr. GALLEGLY. Dr. Purcell, we have about 6 minutes to get to the floor. If you could just kind of hold that thought because the third bell is about to go off.

Dr. PURCELL. I am sorry.

Mr. GALLEGLY. It takes us 5 minutes and if you could just hold that thought until we get back. I do not think anyone wants to miss a vote. We will be back.

[Recess.]

Mr. BALLENGER. [Presiding] Since I started as Chairman, it looks like I am going to finish up maybe as Chairman too. Everybody has got meetings, but I know there are more Members coming. I just voted as fast as I could and got back over here because I know you all do not want to stand around and sit around all day.

So Susan, if you would like, we will let you finish.

Dr. PURCELL. I will say just one or two sentences more. I want to remind people that when President Bush unveiled and announced the Enterprise of the Americas Initiative it contained very few specifics. Yet it captured the imagination of the entire hemisphere. U.S. leadership is crucial to reviving the momentum for hemispheric free trade in Latin America. After our Presidential elections, we should try again. Domestic political forces no matter which party, wins the election—might be more favorably disposed to free trade. I think we cannot underestimate the symbolic importance of U.S. leadership on the issue. We cannot underestimate how much the U.S. and Latin America will benefit if the U.S. government goes on record as strongly favoring Fast Track and hemispheric free trade.

Thank you.

[The statement of Dr. Purcell appears in the appendix.]

Mr. BALLENGER. I agree with you 100 percent, Dr. Purcell. I would like to say Dr. McCoy, it was in Nicaragua that we met.

Dr. MCCOY. Yes. 1990.

Mr. BALLENGER. I worked in about 8 or 10 elections down in Central and South America and it is nice to meet somebody that also seems to be dedicated to the cause of honest elections. So if you will, go right ahead.

STATEMENT OF DR. JENNIFER McCOY, DIRECTOR, LATIN AMERICAN AND CARIBBEAN PROGRAM, THE CARTER CENTER

Dr. MCCOY. Thank you very much, Congressman Ballenger. I also appreciate the opportunity to testify today. As you noted, we had met in Nicaragua. Chairman Gallegly actually participated as a member of our delegation in those 1990 elections monitoring in Nicaragua, so I was pleased to have the opportunity to be with him again today too.

I have worked both as a professor of Latin American politics and at The Carter Center in policy areas with the region for a number of years and I do believe that this is a crucial moment for Latin American democracy and that, in fact, sustained U.S. attention and partnership is critical at this moment to continue the economic and political progress made in the last decade in the hemisphere.

We are working at the Carter Center specifically and intensely now in three countries: Peru, Venezuela and Ecuador. I wanted to

mention for Congressman Menendez, perhaps, if he is able to return that we are working on the corruption issue through The Carter Center and that the good news is that even though there are still high levels of corruption in many countries around the world, not just in this hemisphere, that in this hemisphere there is new attention being paid to it and there are efforts to combat it. That is the exciting news, especially from the grass roots up. The civil society, the nongovernmental organizations are organizing to demand accountability from their governments to address this issue. So I am somewhat hopeful that we are going to see some progress on that particular issue.

In my testimony, in the written statement, I discussed four points and a lot of it does overlap with the first two speakers so I am not going to cover that ground again. Let me mention those four points though.

The first one that I think has not been made explicitly today is that there is not a single region of Latin America and the Caribbean, but in fact, there are many Latin Americas, many parts of Latin America, each with its own needs and priorities. In fact, I espouse the point of view that I just discovered that the Ambassador from Brazil coincides with it, that the U.S. needs to pay more attention to recognizing the distinctions within the hemisphere.

I think that looking at that puts me in the middle of Mr. Hakim's somewhat more pessimistic view, also coming out of the recent Inter-American Dialogue report, and Dr. Purcell's somewhat more optimistic view. I do not want to label you, Peter, but you can respond, about the optimistic view of the glass half full. I instead have a very mixed view because of looking at the region in its different parts.

Obviously, when we look at the emerging markets, Brazil, Chile, Argentina, and Mexico, their amazing ability to survive the financial crises in the last few years I think is great testimony to what they have done in terms of economic reforms. In Mexico, particularly, the support that the U.S. gave that was absolutely critical in 1994 and 1995. Their preferences are also testimony to their democratic institutions that could weather those crises in these emerging markets.

On the other hand, if we look at the Andean countries as well as Paraguay, I am done?

Mr. BALLENGER. No, no. I wanted to keep you on your toes.

Dr. MCCOY. If we look at the Andean countries we see countries that are in extremely bad shape, negative growth rates of 4 to 7 percent last year. We have seen the coup in Ecuador. We have seen the major changes going on in Venezuela with an uncertain outcome. We have seen the questionable elections in Peru that Peter mentioned that we could go into more detail if you have interests.

Obviously Colombia is still struggling with the major guerrilla struggle and drug lords that is a struggle that is frightening the rest of Latin America because of the spillover across its borders. So the U.S. attention and program for Colombia is extremely important at this point in time for the region.

Then we also look at the Caribbean and Central America and I would just second the recommendations coming out of the first two speakers there that NAFTA parity is absolutely crucial for these

countries, as they are coming out of their own civil wars and trying to find a place in the global economy which is difficult for these smaller countries.

The second broad point that I make in my testimony is that, in fact, democracy has survived since the transition of the 1970's and 1980's, but its social and economic performance is poor. It is, in fact, qualitatively thin. It centers around elections, but the people are distrusting their legislatures and their political parties and in some cases they are choosing strong men and populist options. They are looking for saviors and those that give the message of salvation to address the critical problems that have not been addressed of poverty and lack of potable water and lack of good hospitals.

What we may be seeing, and I do not want to be too pessimistic about it, but certainly in looking at the Andean countries, is a new hybrid form of democracy with authoritarian underlinings. We are not going to see a return to the military coups of the past. I do not believe that. We are going to see new, more subtle forms of authoritarianism through the electoral option because the people are demanding solutions.

The third point that I make is that poverty and its underlying inequality have grown in the 1990's despite economic reform and growth and that I believe this remains the single largest challenge for the deepening of the region's democracies and raising its standard of living and I want to come back to that in just a minute.

The fourth broad point is that Latin Americans, in fact, admire the U.S. and do want a close relationship, but that they are skeptical about our commitment to hemispheric cooperation and to democracy. We need to lead, as a democratic partner. We need to join in rather than imposing solutions on the hemispheric problems and our mutual needs.

In addressing Congressman Menendez's question, why is there so little interest in Latin America in Congress, I would love to turn it around and ask the panel why that is the case. I think that Peter summarized quickly the very great national interest we have in the region. Historically, we know that we have swung back and forth from crisis containment—attention when there is a crisis—to benign neglect, and I believe that is indeed because they are such good neighbors. We have come to take them for granted. But my impression from traveling to Latin America is that they are increasingly frustrated and insulted at that kind of an attitude. In fact, they are looking and turning, as we know, with trade agreements to Europe, to Asia, because the U.S. is not responding with a consistent, sustained attention and strategy.

Let me just make a couple of other specific points without repeating all of the same points. In terms of U.S. policy—actually, let me go on.

Income inequality, I mentioned, is a crucial point with two consequences. One is the extreme level of inequality in Latin America that helps explain the puzzling phenomenon of economic growth that leads to increased poverty in the region. The gap between the rich and poor has actually grown during the past two decades, despite the economic reforms, leaving more people under the poverty line, even as per capita income rises. But it is also dangerous to

democracy. Weak democratic institutions are susceptible to the influence of the economically powerful who resist the reforms that could change that pattern. Then, subsequently, the failure of democracies to deliver services and protection to their citizens erodes their legitimacy and makes these alternative forms of government attractive to people who are in desperate situations.

One of the things I have been disappointed about is that obviously the hemisphere recognized that education is a key both for inequality and poverty. That was recognized in the 1998 Summit of the Americas. Even within education in Latin America, there is great inequality as very few people have access to the higher levels of education. Commitments were made in the 1998 Summit of the Americas. I would like to see those implemented to really address the question of education.

Now given all this, what should the U.S. do? I will just go through a few recommendations quickly as we are running out of time. The U.S. should recognize that the Western Hemisphere provides natural allies in a global economy of blocs and spheres of influence. As I said, Latin Americans are ready, even eager to be our partners, as long as the basis is one of mutual respect. It is time to engage them as democratic partners with a consistent, sustained policy.

I suggest the following priorities. Again, reinforcing the point already made, reinitiate Fast Track for the free trade of the Americas. Along with that, pass NAFTA parity for Central America and the Caribbean. Third, give consistent and full backing to democratic institutions and leaders. Several mentions have been made about Peru. The recent State Department messages in fact warning against President Fujimori's manhandling of the electoral process are welcome, but they need to be sustained and spread to other countries, including Venezuela, which is coming up on very crucial elections in May.

U.S. Government support of NGO's like NDI, IRI, IFES, and the Carter Center does provide a neutral and professional means to improve electoral process, but that support is declining at the very moment when it could help to deter new hybrid democracies.

Fourth, and related to the above I advocate using the 2001 Summit of the Americas to be held in Canada next year as an opportunity to address the democracy issue. The Carter Center works with a group of former Presidents from the region called the Council of Presidents and Prime Ministers. This group asked us during this past year that we focus our next conference on democracy because they are so frightened about what is happening in the region. In fact, we will be doing that in October.

Latin Americans often perceive that the U.S. is more interested in drug enforcement and in immigration than in strengthening democracies, so I believe that we need a consistent message from all of our agencies and nongovernmental organizations that we do indeed care.

A fifth point and again related is to encourage more politically and socially realistic IMF policies. Even with the proper economic prescriptions political realities can prevent the adoption of full IMF remedies they can undermine the courageous leaders who are trying to make those reforms. This is what just happened in Ecuador.

It was ironically a leader who was trying to modernize the economy, but who could not, because of the political constraints in his country, get the proper legislation to carry out the full prescription that the IMF was laying out. For a full year Ecuador remained without any fresh loans or capital until finally popular unrest combined with a military coup led to his ouster. I think that it is very ironic that that happened to a leader who was trying to implement those kinds of reforms. The international community and IMF need to be flexible.

I understand right now, in fact, that U.S. aid is being held up to Ecuador because of a hold from Congress and I would urge that that be addressed as soon as possible.

Finally, I will make my last point that I would urge that we show mutual respect for international norms that we value and want to instill in other countries by signing the international treaties to protect human rights and combat corruption. I hope that you will talk to your colleagues in the Senate about these treaties because that will show the mutual respect and put us in the position of leadership to ask the Latin Americans to follow along those lines as well.

Thank you.

[The statement of Dr. McCoy appears in the appendix.]

Mr. BALLENGER. Thank you, Ms. McCoy.

Dr. Weintraub?

STATEMENT BY SIDNEY WEINTRAUB, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Dr. WEINTRAUB. Thank you very much for having me. I have a cold and my voice is going. It should hold out for the 10 minutes that I am speaking, but if not, it is your blessing.

I was listening to a discussion a few days ago at our place. I am with the Center for Strategic and International Studies and the Israeli Ambassador was talking and he made a point that I just want to make to you. He said, "We are not as lucky as you. We do not have Mexico and Canada as neighbors." Just keep in mind that we do have essentially benign neighbors who are looking for cooperative activities.

I will not repeat too much, but I want to make a few points that others have made just to emphasize them. If you look at the hemisphere today, thinking back what it was 15 years ago, roughly, import barriers throughout the hemisphere are now modest. The hemisphere is wide open to foreign direct investment. Congressman Menendez made a point that struck me about the number of complaints he is hearing from business people. I would like to confront him on that because when I look at what is happening in Brazil where last year foreign direct investment—the Brazilian ambassador is here and correct me if I am wrong—was something like $28 billion. In Mexico, it is now averaging about $11 or $12 billion a year. Argentina is higher than that. They may be complaining, but boy, they are going into the big countries.

A third point, the privatization program that took place in Latin America over the last 15 years, particularly in the southern cone, earlier in Mexico, was bigger than any place else in the world. It was not a trivial process and these facts have to be kept in mind.

I think the most important change from an economic sense was a shift in development philosophy and some of my colleagues have already made that point. The philosophy is now based on prudent macroeconomic policy, promotion of exports which I will come back to that, and reliance on the private market which I think is a crucial aspect of democracy. I do not think you can have democracy if you do not have a market. Keep in mind these are major achievements. I will come back to some of these points.

We have not reached nirvana yet in this area but that it takes a little time to get there is really the point I am making. The key currencies in the hemisphere, in Brazil, in Mexico, and in Chile, are floating, relatively clean floats. The currencies are flexible. They have exchange rate policies that are quite reasonable. Argentina, as you all know has a fixed 1 to 1 relationship between its Peso and the Dollar and they are holding that.

Susan Kaufman Purcell made the point that inflation is down. The Latin American disease, as inflation always was, averaged less than 10 percent last year. This is high by our standards, but boy, by the Latin American standard this is remarkable. There are still problems in many countries and I will not repeat the ones that were mentioned.

Democracy has a pretty firm hold in the big countries in the hemisphere. I think it is almost inconceivable that the big countries in the southern cone, Argentina, Brazil, and Chile which is not a big country, would revert to military dictatorship. Just think back 15 years. They have had transfers of power in these countries. Mexico, which was once described by, what is his name, the Peruvian writer, Vargas Llosa, as the perfect dictatorship. Mexico is now going through the most competitive election in its modern history and it is unsure who is going to win. I ask you to keep these points in mind.

There are some serious problems and my colleagues have mentioned them and you are aware of them. Poverty has not diminished. Is probably has gotten worse. Income inequality has probably grown in recent years. Public safety is weak, almost throughout the hemisphere. There are a lot of reasons for this. These are major, major issues. But they are not the only issues in the hemisphere.

1999 was a terrible year for the economies of Latin America. I put a little table in my paper which gives you some of the figures as to what happened to GDP, gross domestic product growth in the last 3 years. It was one of the worst years in recent history. Some of this stems from the crisis in Brazil which the country came out of very quickly. Some of it stems from the decline, the problems in Asia. Chile had its first bad year in about 10 years because of the decline in copper prices. Some of it stemmed from the countries own activities and their own inadequacy. It is a combination. This year will be much better and the table that I have given you indicates that.

If you look at the really big countries you see that they are going to be doing well, Mexico, Brazil, and Chile. I think I had too low a growth figure in my table for Argentina.

Let me now get to the issue and then I will give some recommendations. U.S. exports capture 40 percent roughly of the

Latin America market. It is about 75 percent in Mexico and then it diminishes as one moves south to the southern cone. Taken all together, we get about 40 percent of the market. When Latin America grows faster, our exports grow faster. We get half of that in Europe or in Asia—about 20 percent of the market. So Asia has to grow twice as much before we capture the same share as we do in Latin America and that makes a difference. It is why you have seen the biggest growth in U.S. exports going to Latin America in recent years.

Let me very quickly make four or five recommendations and I will embellish them very little and then I want to touch on one or two of Congressman Menendez' points. First, I agree with what my colleagues have said, that we need Fast Track and we need a Free Trade Area of the Americas if we want to secure our market in this hemisphere. If we do not, others will secure their markets there. The Europeans have already moved into Mexico. They are going to negotiate with MERCOSUR. If we do not, somebody else will move in.

The drug certification process that you follow in Congress I think is not very useful. I do not think any of you could cite a single positive example of what that certification process has done except to bring us into conflict with a bunch of countries once a year. If we can multilateralize the certification process, somehow by doing something else, let the OAS do it, life would be a lot easier for a good many countries and for us.

I agree with my colleagues that we must speak out all the time about strengthening democracy and I will not add to that.

We must support second generation reforms; education, health care, things of that type. The systems are weak. The justice system of these countries as well. These are hard issues. We have not solved our primary and secondary education problems in this city.

Finally, let me make my major point. Maybe this sounds like an economist. If we do not open our market fully to Latin America, if we ever were to turn protectionist—and the failure to move on the FTAA is not protectionist yet, but it is moving in that direction—we do not have anything else to say to Latin America. The rest of our policy becomes meaningless. We convinced them through preaching over 20 years to shift philosophy. The philosophy is now based on exports. This has had a remarkable success next door in Mexico, even as many in Congress fear NAFTA. My own judgment is if we cannot meet the single most important issue that Latin America looks toward in developing its own economy, what else have we got to talk to them about? We can preach, but they are not going to listen, if we do not deliver on trade policy.

Let me just make one point for the record with respect to Congressman Menendez' queries and some of his queries are quite right. However, I think he stacked the deck when he said development does not come from trade alone. Most economists have a Mantra. Open trade is a necessary condition, but not sufficient. I never heard anybody say trade alone will solve all problems, but surely he prefers trade to aid. Anyhow, that is one answer.

Finally, let me make one or two points on corruption. It is bad in the hemisphere. I do not quarrel with that, but there have been some positive steps. Let me mention one or two. When you elimi-

nate import licensing, you eliminate one source of corruption. You do not have to buy your license. When you bring tariffs down, you eliminate one source of corruption. You do not have to buy your way in through the customs agent. When you make foreign direct investment open and do not have to negotiate every step of the way, you have eliminated that middle man in the process. That is happening throughout the hemisphere. Does it solve all problems? Of course not. However, all of the countries are conscious that they have a problem of corruption. They do not know how to deal with it, but a few people have been thrown out of office. That happened in Brazil. There were big headlines in *The Washington Post* and a long story about Argentina's corruption and that is being dealt with. I guess what I am saying is sure, this is a problem and it is not going to get solved very quickly, but the hemisphere was a hell of a lot worse 15 years ago on all of these points.

Thank you.

[The statement of Dr. Weintraub appears in the appendix.]

Mr. BALLENGER. I am sorry that the panel has faded away. Nonetheless, in reality I think you will find that everybody that was here is vitally interested in what is happening in Latin America. I do not know whether some of you may or may not know it, but I got involved down there in the middle 1960's in El Salvador. My father-in-law was invited to the country as a member of the International Executive Service Corps. We went down there and we helped a fellow there set up cost accounting systems, inventory controls. I am a businessman basically. This system was successful enough that he became a friend and he had a couple of manufacturing plants there that he ran on the basis of the way people do in El Salvador. He brought his boys that were going to run this plant up to North Carolina. They went through my plant and we sat down and discussed the way we operate and the personnel practices that we had. This resulted in a change of attitude about the way employees should be treated and the way they should be paid. He actually gave them packets of food as well as their pay checks. I do not know if you can translate our employment practices to Latin America and I do not think you can solve all the problems of the poor, the very poor in everyone of the hemisphere's countries. However, through these type of exchanges and by setting a positive American example we can have an impact. We are rich and we can afford to implement progressive labor practices, but the basic idea of economic development in Latin America is probably as important as anything.

One thing I would like to say is that the first year I was here I came up with this brilliant idea of Congressional or Parliamentary exchanges which I did not know already existed. We were invited to make a trip to Brazil, Chile and Argentina and I went to Brazil and met with their parliamentary leaders who were at that time drawing up their constitution. I would love to have a working relationship as legislators with the Brazilian legislators. However, I ran into a problem when I came back because the question of how long it takes to get to Brazil was constantly raised. If we were to plan a weekend codel to Brazil we would be flying the whole weekend. It turns out that we do have a very good working relationship with Mexico. It used to be that the Mexican legislators would come

and sit down and read a paper to us and that was all. Finally, about 3 or 4 years ago we told them they had 3 minutes to speak and then they were cutoff. This led to us actually getting a discussion going. I believe this positive interrelationship is something on which we need to work. Peter has invited me to attend a meeting with a group of legislators in Costa Rica and I look forward to interchanges that will be constructive. I was heavily involved as Ms. McCoy knows in the election in Nicaragua. We won the election and I came back up here and forgot all about it. Then this lady flew all the way up here and said OK, we have won the election and I am now Speaker of the House, what do I do? We went out and got all our books on parliamentary procedure and practices and gave them to her. These types of legislative exchanges serve not only to bolster to bilateral relations but also support democratic institution building.

I would like to pose two questions because right now two really strange things seem to be occurring in Latin America and I would like your opinion. First of all, the election in El Salvador did not turn out as expected. I believe there was a light vote. The president of the party PAN in Mexico came and presented me with statistics and so forth that would suggest that there is a good likelihood that Mr. Fox might win in Mexico. I would like to throw those two at you and ask you how you read this situation? Salvador going left and Mexico going free enterprise.

Yes ma'am, fire away.

Dr. PURCELL. I will just address the Mexico issue. About a week ago the polls showed that the two candidates were more or less even and some even showed that Mr. Fox was ahead. This was unprecedented. This morning I read that *Reforma's* polls showed that they were about 9 or 10 percentage points apart. Mr. Labastida, the candidate of the PRI, was ahead of Mr. Fox, the candidate of the PAN. The elections do not occur until July, and it could still go either way.

It is not quite accurate to think of Mr. Fox as on the right. The PAN is on the right, but Mr. Fox is not. He is part right on some issues, part left on others, part populist, part free enterprise, etcetera, and that is precisely why he has been able to gain a lot of support despite the fact that he did not get the support of his party. Initially, he actually presented them with a fait accompli, as you know.

What is occurring in Mexico is truly amazing in the context of what Mexico has been until fairly recently. For the first time there is the possibility that an opposition candidate could win, the presidency. There are some who say that say Cuauhtemoc Cardenas won in 1988, but the government did not recognize his victory, if indeed it occurred. This time, if an opposition candidate wins, it will be recognized. I have absolutely no doubt about it. Mexico has changed profoundly. What you are seeing is less of a left-right kind of contest in Mexico, than a contest between a governing party and opposition candidate. The opposition is not based on economic grounds but on democracy. You can have all the democratic processes you want in a place, but for many Mexicans, as long as the PRI, the party that has governed Mexico since 1929 under a variety of names, continues to hold the presidency, there will be sub-

stantial skepticism and dissatisfaction with Mexico's democratic transition. Many people will continue to believe that the transition has not been completed.

I do not know who is going to win, but I must say that I am thrilled that I do not know.

Mr. BALLENGER. Peter?

Mr. HAKIM. Just to add, I think what is interesting is that in both El Salvador and Mexico there are competitive elections and it does not really matter to the United States or to the relationship with either country really who wins. This is remarkable, particularly in the case of El Salvador where the sort of people that came out ahead of reform were guerrilla fighters who were doing battle with U.S. supported troops. The fact is that now ideological differences have narrowed substantially. They have not been eliminated yet, but these people now sit together in congresses, passing laws and reaching compromises. There is no question that this is a significant change. The Chairman, Mr. Gallegly, cited an article of mine as being at the extreme pessimistic end of the spectrum. The title, I agree, was a little bit ominous sounding, "Is Latin America Doomed to Failure?" I wanted to make two points in closing. First, one has to read the last paragraph of my article to get that the answer is not necessarily positive to the question. Second, I like to think of myself really as the optimist in the sense that I believe our standards for Latin America ought to be higher, that we ought not be able to say that corruption is terrible, awful, but it is better than it was 10 years ago. That is really not enough. The same can be said about this recent economic recovery, which I think is remarkable. Everyone is hearing of 4 percent growth rates, but that is less than the average growth rate over the 20 years between 1960 and 1980. That is far less than the East Asian countries.

I believe to be optimistic one ought to set higher goals—so yes, I do sound pessimistic compared to what I would like to see happen there, but I think that the way to do it is not to excuse failure, but to strive for stronger standards of success.

Mr. BALLENGER. Yes, go ahead, Jennifer.

Dr. MCCOY. Just to add one point about the electoral results, I agree that there is much less ideological difference certainly between the PAN and the PRI. They are basically advocating the same economic strategy. You recall the last elections in Chile, Argentina, and Brazil have elected people on the center left, basically. Central America had been electing people more on the center right and right and now may be moving. I think that that reflects not a major difference in economic policy, because there is a basic consensus on the economic reform, but this frustration that I mentioned with the lack of social and economic performance: the people are not getting services from their governments and they are voting for a change and especially voting for people who are saying they are going to address the needs of the people.

In more extreme cases, we are seeing people like Hugo Chavez elected in Venezuela who are being more radical in how they are going to address the needs of the people. In these other countries it is a more modified version of that.

Mr. HAKIM. Can I just say one thing? Brazil is not a real good example because they re-elected the president, so I mean there was a certain degree of continuity.

Dr. MCCOY. Yes.

Mr. BALLENGER. Economically, I would agree with everything you said. The fact that I come from a part of the country that lost all our textile jobs to Central America before they started going to Asia. Now NAFTA is starting to bring textile jobs back to Mexico. I am all for developing something along those lines, but let me ask you one favor, please. If we want to sell something around here and you want to get our vote at least where I come from, do not use the word NAFTA. Free trade, CBI–30, whatever you want to call it, but NAFTA burned a few of us pretty badly. Also I would rather have another choice of words. It may be cowardly on my part. Also, let me, if I may yield to my friend from Boston, you mentioned Mr. Chavez. You probably have two of his strongest supporters sitting right here so we are going to keep him straight no matter what happens.

Go ahead, my friend from Boston.

Mr. DELAHUNT. Thank you, Mr. Chairman. I want to pick up on just some of the themes that you have articulated. I think it is interesting, listening to such a distinguished panel that Dr. Weintraub said the big countries are doing well. This is reassuring. Yet, at the same time I heard from all the witnesses that there is a growing gap between the rich and the poor, that the disparity in wealth and income has grown. It is like somebody is doing well, but the people in these societies, are they truly doing better?

Chairman Ballenger just mentioned the term NAFTA. Dr. Purcell mentioned the AFL–CIO. Those of us who come from Districts where organized labor has political clout like to remind those that talk about free trade that what the AFL–CIO and others are trying to do in terms of instilling in the debate is the need to insure that the increased prosperity from trade is allocated equally and fairly among entire societies.

To pick up on a point again that Mr. Ballenger referenced just now about President Chavez in Venezuela. I am clear that his popularity which is overwhelming, which is real, which is palpable is due to the fact that he recognizes the inequalities that have existed in Venezuela for the last 20 or 30 years. We talk blithely about democracies. I do not know who it was, but someone talked about elected democracies. We had elected democracies in Venezuela for an extended period of time that gave nothing more than lip service to democracy where I think there is a consensus that in terms of the rule of law, in terms of the so-called democratic institutions in Venezuela that existed prior to the arrival of President Chavez on the scene were corrupt. It was interesting to listen to American commercial interests that do business in Venezuela. In terms of the lack of predictability of what would occur within the judicial system in Venezuela businesses certainly were discouraged oftentimes, unless of course, they were adequately and I say this with a tinge of sarcasm, adequately represented before judicial tribunals in Venezuela. I guess that is more of a statement and a commentary.

However, I do agree with Dr. McCoy when she challenges Congress and really challenges the Administration and I think chal-

lenged the American people to revisit our relationship with our neighbors to our south. It is not a priority. It is not on the radar screen. It only comes before us when we begin to get concerned about the flow of drugs coming from Colombia to the United States. It is unfortunate and I think the concerns expressed by Mr. Menendez really resonate. We, I mean, Members of Congress, and the political leadership in this country should really revisit our relationship with Latin America. I think many of your comments are on the mark.

I think there is also a danger too, when we talk about polls and we start to label democracies as hybrid, left or right because these are all dynamics as opposed to static situations. Those of us that have run for office understand this all the time.

Six months ago, most Democrats had conceded the presidency to George Bush. That is not the case now. John McCain 3 months ago was really not a factor in American political life. He clearly said something that resonated. Would you put John McCain on the left, on the right, in between or what? I think what he did is he as I think all of you have said and I think you in particular, Dr. McCoy, he hit a chord much like President Chavez has in Venezuela.

If anyone wants to make any comments, I would be happy to listen.

Mr. BALLENGER. Dr. Weintraub first.

Dr. WEINTRAUB. Let me make just a brief comment. Do not get the impression that scholars do not care about poverty. Economists have talked about this for as long as I can remember. But I ask the question and I want you think about this too: How do you reduce poverty in a country? I am not talking about inequality now, that is different. I am talking about poverty. Unless you want to have a revolution, the only way that I know of to reduce poverty is by sustained high growth rates, year after year after year. Does this work? Well, it worked in Chile. Chile is about the only important Latin American country that has sharply reduced poverty and that is because it grew year after year, based a lot on trade. Trade was the critical element in reducing poverty. Chile's inequality, by the way, went up as its poverty went down, so the two do not necessarily go quite together.

The reason that most of you get critical, I will not use the word NAFTA too often, even——

Mr. DELAHUNT. Go ahead, Doctor, that is OK. There is only two of us here, so we will not squeal.

Dr. WEINTRAUB. I think NAFTA has been a success, economically. A fantastic success. It has been a political failure, but the question that many of us who are not anti-labor and I am not anti-labor by any means, but the question I keep asking the labor movement is whether thay really care about the people in poverty in all of these countries if they do not want to give them the opportunity to grow and trade as necessary if they are going to grow? In other words, part of the problem, I suspect is that their motives may be right, but I think they are recommending all of the wrong things.

Mr. DELAHUNT. I guess growth obviously will have some benefit, but what I dare say——

Dr. WEINTRAUB. It is the only way to do it.

Mr. DELAHUNT. Well——

Dr. WEINTRAUB. You tell me how else you can——

Mr. DELAHUNT. Right, but I do not think it has to be predicated on a trade policy.

Dr. WEINTRAUB. Sure it does.

Mr. DELAHUNT. In other words, growth, what you are suggesting is that growth is solely and exclusively predicated on trade?

Dr. WEINTRAUB. No. What I said is these countries have all adopted a policy at our recommendation that instead of looking internally, which failed and poverty was great, they have all adopted policies which are export oriented. Almost every Latin American country with a few exceptions. Venezuela has not been very good except for oil on that score. If we are going to cutoff our market——

Mr. DELAHUNT. I am not suggesting, again, let me be clear, too. I want to be clear to you. I am not suggesting that we cutoff that market. What I am suggesting is that our trade policy ought to factor into the equation a mechanism to insure that the benefits have increased prosperity, presumably emanating for trade, be allocated fairly and equitably. That is my point.

Dr. WEINTRAUB. Let me make one comment and I will quit.

Mr. DELAHUNT. Keep going.

Dr. WEINTRAUB. The main point I want to make is that there are a lot of ways to do that and a lot of us have been trying to figure out ways to do that. The one thing that they will not accept anywhere in the developing world is that the technique for doing that is to impose a trade sanction when they do not meet some standard that we set. This has been unanimously rejected. That is not the only way to show concern for labor. You can fine the companies. You can label the product. All I am saying is think about those techniques.

Mr. DELAHUNT. I think your recommendation is good and I think too, that we have seen a shift in terms of the attitude of the IFI's in terms of the abrupt changes that have been brought about in some countries as a result of the conditions of the IMF and other international financial institutions.

I think there is a balance. I do not really think that you and I would necessarily disagree, but there has to be a balance. In the end, if you have a society of have and have nots, whether it is in a developed country, like the United States where you have a permanent long term increasing gap between those that have and have not, you have social tensions.

We have social tensions in our cities because of the gap of income and the ability of individuals to access capital and wealth. That is my point, Doctor.

Mr. BALLENGER. I would like your opinion because the Ambassador is here and when you sit right down and look at it, Brazil is larger than Russia or India. Their GDP is greater than China's, Russia's, India's or Mexico's. It seems like they should be the engine for growth in all of South America. I wish the Ambassador was sitting here, but you can express an opinion.

Somehow we do not seem to be developing the relationship with the real engine of South America in this country and I do not know how you go about it. The great distance is a barrier to trade between our countries, although I note trade does exist. Any expression of an opinion there?

Dr. WEINTRAUB. I have one comment and I agree with your point, by the way, your basic point. It is only—but I will give you some answers if I can. It was only recently when the Brazilians got into the crisis last year and they had to be bailed out with what was it, $41 billion, that concentrated a lot of minds up here that and the end of the Cold War concentrated a lot of minds. I think we care about Brazil now in ways that most of us ignored earlier. By most of us I really mean the policy community. The business community was not ignoring it. They were going down with billions and billions of dollars.

My second point is that Brazil is not that big a trader compared with Mexico. Brazil exports somewhere in the neighborhood of 10 percent of its GDP. It is a big GDP, $800 billion or so. Mexico exports 35 percent of its GDP. It is about $500 billion.

We trade more with Mexico than with the rest of the Latin America put together, in part because of changes. The answer to your question is, that it is not only because Brazil is distant. A lot of other countries are distant. It is because we just ignored trade. Brazil ignored it. Brazil looked inward. We did not look much into South America and I think we are slowly changing on that score.

Mr. HAKIM. I do not necessarily agree with my colleague. First, I think that if you talk to the Brazilian government, talk to the Ambassador here and the foreign minister is coming up in a couple of weeks, the relationship between the United States and Brazil is as good as it has ever been in many respects. That does not mean we are taking advantage of all the opportunities possible—and one of the problems is the long distance. We have had, as you say, NAFTA, which did not work out politically so well, so it is hard to think about moving the trade area much beyond that. It may be that U.S. trade with Mexico is many multiple times that of trade with Brazil, but direct investment in Brazil is very large. U.S. firms are going into the country even through Brazil is a lot further away. It is not easy to develop a good relation. Brazil has a lot of its own interests. Those interests, in part, reflect its own political preferences. They reflect the internal politics of the country. I believe this is a long-term process. The core and anchor is the economic relationship, and we ought to be consulting with Brazil far more than we do on a whole range of issues. We are beginning to do that. I believe, one of the high points in this relationship was when President Clinton invited President Cardoso to go to Camp David for a dinner and they spent most of their time as I understand it, talking about global issues, and issues in the hemisphere. In other words, the U.S. was seeing Brazil as an ally and a partner, talking the way we would talk to Germany or France about these sets of issues, not necessarily about nitty gritty bilateral relations. I think the way to develop this relationship is in part, to recognize Brazil as something special. Business people have not neglected Brazil especially now that the country has begun to grow again as it continues to emerge from crisis. There is going to be more and more invested, more and more pressure to loosen up on the trade issues.

Mr. BALLENGER. Yes ma'am, go ahead.

Dr. PURCELL. I agree with most of what has been said except that I think that we have the closest relationships with those gov-

ernments that have gone out of their way to seek close relationships with us. They have wanted a special relationship with us. Examples include President Menem when he was President of Argentina, President Zedillo, and particularly President Salinas, when he started restructuring the Mexican economy, I agree with Peter. Our relationship with Brazil is better than ever. However, I do not think that Brazil has given any indication that it particularly wants a close relationship with us.

Brazil wants to be a leader in Latin America. The United States also wants to be a leader in Latin America. Brazil is a big continental country. So is the United States. The U.S. and Brazil have some overlapping goals. There is also a slightly competitive relationship between us in the hemisphere. I do not mean this in a bad way.

Mr. BALLENGER. I do not doubt that. As far as business is concerned, if you ever go to Sao Paolo, it is unbelievable the economic development there and Ford is there. General Motors is there. And Mercedes.

Dr. PURCELL. Everybody is there.

Mr. BALLENGER. Everybody is there. I think the basic point economically as you say, is that it is a long distance to ship back and forth, so if you are good businessman why not invest your money in Brazil, then you do not have to transport it back and forth.

One thing I would like to ask and I am quoting Dr. Kaufman, is that if her analysis is correct in assuming that by the year 2010, U.S.-Latin American trade will exceed our trade with Europe and Asia, even with the current tariffs and the trade restrictions, why is the pursuit of the FTAA integration so important?

Dr. PURCELL. That is a good question. Because I think what it will do is help consolidate and give emphasis to a second stage of reforms that is necessary. This would include anti-corruption efforts, the need for the rule of law, and for better democratic processes. It is also in our interest because the FTAA would help open up more of the hemisphere to greater intra-hemisphere and to greater trade between the United States and Latin America. What the FTAA would do is build on a process that seems to be moving ahead even without it. It would help it move faster and further. It would strengthen the position of pro-reform elements in Latin America, and would insure that a good thing will get even better.

Mr. BALLENGER. Dr. Weintraub?

Dr. WEINTRAUB. I want to make two or three points. I will be brief. First, we call the FTAA a trade agreement, but it is really, trade is just one element. It is an important element. The FTAA has to do with investment and it has to do with interactions and relationships and the development of organizations, both official and unofficial, governmental and nongovernmental organizations. That is what a trade agreement does. Trade develops all of those relationships and to say we do not really care about developing these relationships, except with Mexico, the rest no. Our policy will never be complete.

Second, we now face discrimination in just about every Latin American country compared to other Latin American countries and compared to some outsiders. For example, I can give you plenty of examples of where U.S. producers deliberately move their produc-

tion for export to Canada or Mexico because that is the way they can ship into Chile without tariff. If shipped from the United States, they have to pay a tariff.

We compete with Brazil in the rest of MERCOSUR and the associated countries. Our stuff pays a tariff. Their stuff does not pay a tariff. We are getting free trade agreements and Customs Unions, in all of Latin America. The European Union has decided it is going to do its darnedest to conclude a free trade agreement with MERCOSUR and my guess is it will not be quick, but eventually they will succeed. They are going to move in with a free trade area.

In a sense, I think what we are saying is that our hemisphere really does not mean that much to us if we turn down a free trade area and I think if we were to say yes, the FTAA will come into existence and every single country would come in, even if now they say they are not sure. No country is going to want to be discriminated against in our market. I do not look at a trade agreement as being about trade alone is really what I am getting at.

Mr. BALLENGER. I agree with you, basically. Even though North Carolina lost a bunch of textile jobs to Central America, I hope somehow we would establish free trade through CBI so that the Caribbean can at least compete with Mexico. I would say that this has been one of the more interesting hearings.

Excuse me, do you have any more?

Mr. DELAHUNT. I will be really brief. Due to Peter's castigation earlier for being a pessimist, I want to make the observation that his and the Inter-American Dialogue's efforts here on the Hill, I think are absolutely to be embraced and welcomed. Through these efforts what occurs is that leaders from officialdom here on the Hill as well as representatives of the various Latin American countries have a chance to have these kind of conversations. Dr. McCoy, I think your challenge, is a very legitimate challenge. Peter, I think the fact that you are bringing together Members of Congress and various Parliaments from all over the western hemisphere in Costa Rica is absolutely essential because the reality is the reality is in terms of official Washington, Latin America is not on the radar screen. Let us not deceive ourselves and let us not deceive the people who have an interest. We might disagree as to the solutions, but I think you are so right in that it is time to insure that we provide sustained attention to the hemisphere in all spheres, cultural, political and commercial relationships. As Dr. Weintraub illustrated, they are all interrelated and it is time that we ratchet up our set of priorities so that the Western Hemisphere and Latin America are right at the top.

Mr. BALLENGER. What I would like to do is thank you. Peter go ahead.

Mr. HAKIM. First, I hope the Congressman's comments are on the record. I also want to thank him for his leadership and your leadership on this. He comes to lots of discussions and exchanges and debates and is always a good contributor and we would like to get you to more of them.

Mr. BALLENGER. I thank all of you for coming. To me it was a very fascinating discussion that we had and Bill and I are vitally interested in what goes on in Central and South America and will continue to be. I will be frank with you, the other Members that

were unable to stay all the way through also feel the same way. Again, thank you profusely for coming and providing your knowledge to us in hopes that it will lead to something constructive. It is not that we do not have South America on our screen, but the State Department does not have it on its screen.

On behalf of Mark Sanford I ask unanimous consent that these questions be submitted for the record. Hearing no objections so ordered. In addition I submit this statement by Ambassador Barbosa for the record.

Thank you very much.

[The statement of Ambassador Barbosa appears in the appendix.]

[Whereupon, at 3:35 p.m., the Subcommittee was adjourned.]

A P P E N D I X

March 15, 2000

Opening statement of Chairman Gallegly
March 15, 2000

THE U.S. AND LATIN AMERICA IN THE NEW MILLENNIUM

As we enter the new millennium, there seems to be a disturbing trend of uncertainty about Latin American stability and direction coming from many of our international analysts. Likewise, there seems to be a more negative critique of how United States policy is, or should be, reacting to the current environment throughout the region.

Three years ago this Subcommittee held a similar hearing on Latin America with as distinguished a group of witnesses as we have here today.

At that hearing I posed the following questions:

* To what extent has democracy really taken hold in Latin America?

* How strong are the governments of the region?

* How extensive have economic reforms been in Latin America?

* How likely are these reforms to bring true open markets and sustainable economic growth throughout the region?

* How will issues like poverty, drugs, corruption and crime influence the abilities of the Latin democracies to succeed?

The general consensus at the time could have been described as one of "cautious optimism".

Clearly, there were high expectations resulting from the growing democratization in the region attributable to the many free and open elections taking place; with the implementation of market-oriented economies; and first generation political and economic reforms taking hold. And, U.S. policy seemed to be pro-active, having seen the Mexicans through the peso crisis, and with the convocation of the Summit of the Americas, promoting economic integration through policies such as NAFTA, CBI and the concept of an FTAA, progress seemed to be on course.

Today, however, the attitude seems to be different. The high expectations seem to be turning disappointing. And the bumps in the road predicted by most of the witnesses then, have come true in varying degrees.

Political uncertainty lingers in Venezuela, Peru and Paraguay; continuing violence plagues Colombia; recent unrest racked Ecuador; the escalation of tensions between Belize and Guatemala and Nicaragua and Honduras, over borders, has become cause for concern.

And, in a recent public opinion poll taken by the MORI research firm in Chile, people of only two Latin American nations - Costa Rica and Uruguay - gave democracy an approval rating of more than 50 %!!

On the economic front, overall growth seems too slow; economic volatility still prevails; little progress has been made against poverty, corruption or crime; and, for the most part, the institutions which are supposed to be the strength of a long-lasting democracy, seem marginal at best.

And, U.S. policy toward the region has been characterized by some as being "fatigued", "reactionary", "bad news oriented", or just plain "disinterested".

So where are we?

I suspect, the answer lies somewhere between a recent speech given by Senator Coverdell in which he said that "with the proper nurturing of the political and economic relationships among nations of the Western Hemisphere... the next century will be the Century of the Americas", to the question raised by Mr. Hakim in a recent article he wrote entitled, "In Latin America Doomed to Failure?"

In the end, only time will tell. But our hearing today will attempt to at least lay out the issues and parameters of the problem and hopefully begin to identify ways in which we can help ensure that Senator Coverdell's view ultimately prevails.

Before turning to our panel of witnesses, I would like to recognize the Ranking Democrat, Mr. Ackerman, for any opening remarks he may have.

Any other Members wishing to make opening remarks?

I will remind our witnesses that all of your written statements will be entered into the record in their entirety and you may proceed in any manner you wish.

We now recognize Mr. Hakim.

The Honorable Robert Menendez
Subcommittee on the Western Hemisphere
The U.S. and Latin America in the New Millennium
March 15, 2000

The Western Hemisphere is a place of both 21st century opportunities and 19th century problems. Multi-million dollar companies exist alongside third world shantytowns and new Mercedes Benz' cruise past the more than forty-five percent of the population that lives below the poverty line.

From Brasilia to Managua, these contrasts showcase the region's immense opportunities and challenges. Narrowing the gap between these parallel realities is a prerequisite for long-term political and social stability in the region. U.S. policy towards Latin America, in the next century should seek to address these inequalities by increasing our support for social, education and health care programs, while at the same time expanding our trade and economic ties with the hemisphere.

Latin America is a very different place today then it was in the 70s and 80s. Today, all but one country in the region are democratic. Yesterday's ideological battles are today being fought through civil society organizations, the media and at the ballot box, and political debates in Latin America today, are not dissimilar from debates between parties in the U.S. -- they center around the methodology, not the ideology, for resolving social inequalities and promoting economic growth and opportunity.

While the outlook to our South is positive, the long-term viability of democracy, in the absence of social and economic progress, may be in jeopardy. Democracy is more than a word that is justified by holding free and fair elections. Our efforts and interest shouldn't end with the election of democratic leaders; we need to ensure that the roots of democracy take hold in Latin America by helping to build democratic institutions, backed by strong social and economic policies.

We should look positively at democracy's winning streak in the Western Hemisphere, but we also should recall that few regions in the world can compare to Latin America's record of instability. Latin American countries have had 253 constitutions since independence, an average of 12 per country, and twenty years ago, with the exception of the English-speaking Caribbean, only four countries had elected civilian governments.

In essence, the United States needs to stay engaged in the Western Hemisphere. We need to make the hemisphere a priority alongside our relations with Europe, Asia, and the Middle East. The absence of a crisis -- on par with the Middle East Peace Process, Russia's revolving government or a war in southeast Europe -- has given us a false sense of security and the unfounded belief that democracy is safe in this hemisphere.

Throughout the hemisphere, from Venezuela to Colombia, Peru and Paraguay we have seen warning signs that the state of democracy in Latin America is quite fragile. The failure of most countries to improve living standards for the region's large, disenfranchised underclass may prove to be a fatal flaw. For this large population, democracy has not yet yielded the promised returns. Not surprisingly, it is this same class which makes up the region's guerilla movements, which serves as the workforce for the illicit narcotics industry, and hence is most likely to reject a government which it feels does not address its needs. The failure of governments to ensure that the rights and opportunities of democracy extend to the disenfranchised underclass, may ultimately threaten the longevity of democracy itself.

Only in Central America are the signs more encouraging. But even there, democratic governments must take steps to ensure that all people are empowered to embrace the opportunities granted by a democratic system of government.

When compared with the cost of restoring democracy, foreign assistance, investment incentives and even State Department and U.S. AID personnel are relatively cheap. We spent billions of dollars in Central America in the 1980s to democratize the region, yet today we have trouble appropriating sufficient funds to ensure that these nascent democracies stay the course. We have only to look at Haiti to understand the high cost of restoring democracy. It is cheaper and easier to support projects that strengthen democratic institutions, than to intervene after a crisis has begun.

I hope that our panelists can address the issue of what actions we should take to ensure that the nations of the hemisphere stay the democratic course, and address the social issues that threaten their political stability and economic development.

Statement of Peter Hakim
President, Inter-American Dialogue
before the Western Hemisphere Sub-Committee
of the Committee on International Relations
of the House of Representatives

March 15, 1999

The United States and Latin America: Opportunity for Partnership

The U.S. government now has an exceptional opportunity—probably more than at any time in recent memory—to help shape inter-American relations in ways that benefit both the United States and the nations of Latin America and the Caribbean. The governments of the region are looking to the United States for cooperation and leadership on most key issues in Western Hemisphere affairs. Colombians want Washington to engage their security and narcotics problems more intensely. Chile and the countries of Central America have made clear their interest in negotiating free trade agreements with the United States. In addition to their free trade pact, which has led to dramatically increased trade and investment flows, the United States and Mexico have built a range of cooperative arrangements across many areas, most of which were unthinkable a decade ago. The United States recently joined efforts with Brazil and Argentina to help preserve democracy in Paraguay, and to assist in the resolution of the Peru-Ecuador border dispute. While conflict has by no means been eliminated from U.S.-Latin American relations, anti-Americanism—once prevalent throughout the region—has diminished sharply everywhere, displaced by a widespread interest in cooperation.

Recent Developments in Latin America

In the past two decades, Latin America has taken a decisive turn toward democratic politics and market economics. It is this positive turn that has generated a convergence of values and interests between the United States and the nations of the region, and has provided the essential basis for productive, long-term partnerships. In recent years, however, skepticism has been growing about whether democratic rule and market economic policies will produce the results they once promised—whether they will, in fact, be able to satisfy the demands of Latin America's citizens for good government, steady economic advance, social justice, and personal security.

The start of the new century is an unsettled moment for many Latin American nations, with four central challenges now confronting the governments of the region:

- First, it is important they achieve sustained economic growth of some four to five percent a year. That, according to the World Bank, is the minimum required to reduce the region's widespread poverty and misery. Although Latin America has been extraordinarily successful in controlling inflation, average annual growth in the past decade barely exceeded three percent. Only three of 19 Latin America countries achieved five percent growth. The region's performance was better than the one percent expansion registered in the debt-plagued 1980s, but remains substantially below what is needed to reduce poverty and considerably less than the region's growth in the 1960s and 1970s. Last year, Latin America suffered its worst slump in 15 years. Although recovery is proceeding rapidly and solid growth is projected for the region as a whole, many countries are lagging and there are questions about Latin America's capacity to sustain rapid growth without recurring crises.

- Second, throughout Latin America, the performance of democratic institutions needs to be enhanced. Despite the renewal of Latin America's political life that came with the return of elected governments, judicial systems, legislatures, political parties, even the presidency remain weak and discredited in many countries. Democracy is directly challenged in some countries. Having curtailed the practice of democracy for years, Peruvian president Fujimori is likely next month to win a constitutionally-dubious third term in a rigged election. Venezuelans last year elected failed coup leader Chavez as president, and have overwhelmingly supported his overhaul of the country's political institutions and centralization of power. A military takeover of power was barely avoided in Ecuador, following the illegal ouster of elected President Mahuad. In contrast, recent elections in Argentina, Uruguay, and Chile are models of what Latin American nations can achieve.

- Third, Latin American governments need to improve the quality of public services of all types. Education and health services have not gotten better under democratic rule and may have deteriorated in some places; almost every country of the region has suffered a destructive upsurge in criminal

violence; and corruption is widespread and debilitating. Public services are dismal for most people in Latin America; for many, they are simply not available. In most places, improving services will require that more taxes be collected.

- Fourth, poverty and inequality need to be forcefully addressed. Per capita income in Latin America has hardly improved since 1980, leaving most Latin Americans as poor in 2000 as they were twenty years earlier. Latin America continues to suffer the worst income disparities of any region in the world. Several Latin American countries—including Chile, Costa Rica, and Uruguay—have show that poverty can be reduced, although inequality has proven to be a stubborn problem everywhere.

Most of Latin America's political leaders and financial managers are still betting on market economics and democratic politics—and they are working hard to build pragmatic hemispheric cooperation. But, these efforts will prosper only if Latin America's governments are able soon to produce better results and recapture the confidence of ordinary citizens.

U.S. Policy: Looking to the Future

It is mostly up to the governments and citizens of each country to meet these key political and economic challenges. But the United States can play a constructive role by designing and conducting a long-term cooperative policy to reinforce democracy and economic progress in Latin America. These were the policy directions promised by Presidents Bush and Clinton at the outset of the 1990s. Both presidents talked effusively about a community of Western Hemisphere nations, and took important first steps toward that goal—but U.S. initiative in Latin America and the Caribbean subsequently faltered. What follows are twelve concrete policy recommendations that would enable the United States now to retake that initiative.

Free Trade: Congressional approval of fast track is the top priority. Without fast track, Washington lacks the credibility and authority it needs to shape and advance regional free trade arrangements. And most Latin American governments consider free trade to be the cornerstone of broader cooperation with the United States. The President needs to better inform Americans about the benefits of NAFTA and its extension to the rest of the hemisphere,

and squarely address the controversial issues of labor and environmental standards.

The Economic Agenda: Beyond trade matters, Washington should push a broader agenda of economic coordination with the region, including the development of mechanisms to prevent and respond to financial crises, and the formulation of common macroeconomic targets, a la the European Maastricht accord. This may eventually lead to discussions of a common currency for the hemisphere. The United States should be applauded for its prompt and effective efforts to avert economic meltdowns in Mexico in 1995 and Brazil in 1998. These were exemplary responses to crisis situations, and provide some important lessons on which to build a considered, long-term policy toward Latin America.

Drugs: Washington should work hard to help insure the success of the new OAS-based multilateral mechanism to assess the anti-drug performance of hemispheric nations. This would be an important first step toward replacing our own, much resented certification process.

Immigration: U.S. immigration laws and practices should be aligned with key foreign policy objectives. How we treat immigrants, legal and illegal, will increasingly affect our relations with their countries of origin.

Mexico: Washington's most important accomplishment in Latin America in the past dozen years has been to build an increasingly cooperative relationship with Mexico. NAFTA is the core of the relationship, but cooperation extends into a great range of other areas—counter-narcotics, immigration, environment, and others. This cooperation must be carefully managed since any of these issues can flare into open conflict. In the coming period, the three most significant concerns for the United States are whether Mexico is able to (1) sustain its smooth recovery from the 1995 economic crisis, (2) continue its progress toward more open, democratic politics, and (3) effectively address such threats to its stability as drug trafficking, corruption, criminal violence, localized guerrilla movements, and deep poverty and inequality.

The Caribbean Basin: CBI enhancement is a critical step toward building more satisfactory relations with Central America and the Caribbean. These subregions are part of North America and should be brought into NAFTA, and Mexican-style cooperative arrangements developed on many issues.

Brazil: To conclude hemispheric trade negotiations by the 2005 deadline, Washington must find common ground with Brazil. Agreement is impeded by bilateral trade disputes as well as by differences on the multilateral agenda. Overall, the United States should regard Brazil (as well as Mexico and Argentina) as a key U.S. ally on a range of global issues.

Cuba: Washington needs a strategy of engagement to help promote a successful transition to democracy in Cuba following Castro's departure.

Colombia: In Colombia, the United States should move ahead with a policy (and necessary resources) to bolster the authority of the Pastrana government and improve the professional capacity of its military. To negotiate with the guerrillas, defend human rights, and attack the drug trade, Colombia requires a stronger government and military.

Haiti: No matter how frustrating, the United States must continue efforts to strengthen Haiti's economy and governance. It is essential to end partisan battles over Haiti.

Challenges to Democracy: In cooperation with other hemispheric governments, the United States needs to find consistent and effective ways to respond to new (and often more ambiguous) challenges to democracy. In Peru and Venezuela, for example, democratic forms persist, but power has become concentrated and political competition is restricted.

Education: A serious effort to pursue the education agenda put forth at the Santiago Summit in 1998 would be welcomed by most countries. That might include initiatives to set hemispheric standards and timelines for achieving them; begin development of regionwide student achievement tests; and establish a clearinghouse of new ideas and best practices.

These dozen measures would go a long way toward reinvigorating U.S.-Latin American cooperation. They would demonstrate Washington's understanding that a more prosperous, stable, and democratic Latin America advances U.S. economic, political, and security interests. And they would set the stage for the United States to engage hemispheric affairs in ways that are productive for both the United States and the nations of Latin America and the Caribbean.

Dr. Susan Kaufman Purcell

Vice President

Americas Society/Council of the Americas

March 15, 2000

House Committee on International Relations

Subcommittee on the Western Hemisphere

The U.S. and Latin America in the New Millennium: Outlook and Priorities

Dr. Susan Kaufman Purcell

The New Latin America. Latin America has undergone dramatic changes during the past fifteen years. The military regimes that were dominant in most of the region's countries have been replaced by democratically-elected governments. Formerly closed and highly protected economies are now more open and integrated into the global economy. Intraregional trade has also grown as a result of the formation of a number of subregional trade blocs. Finally, relations with the United States have improved considerably, in great part because the end of the Cold War allowed Washington to place economic concerns instead of security issues at the top of its hemispheric agenda.

This is not, of course, the first time that Latin America has been democratic and had open economies. Nor is integration a completely new phenomenon for the region. And despite the considerable imbalance of power between the United States and Latin America, relations between the two have not always been hostile. In view of these observations, it is reasonable to ask whether this time around the changes will prove more enduring than in the past.

I believe that the answer to this question is "Yes." Democracy in Latin America today is considerably stronger than it was in the past. Electoral processes have become more transparent and less capable of being manipulated. Politics is

also far less ideologically polarized. Parties of the left and the right have moved toward the center. Incumbent governments defeated in elections are more likely to relinquish power to their victorious opponents, even when the latter hail from the opposite end of the political spectrum. Democracy is also no longer mainly a top-down process. State and local government have grown in strength and importance. The proliferation of independent non-governmental organizations (NGOs) has made politics considerably more participatory than in the past. And these participants are better informed about the issues than ever before as a result of the spread of new technologies such as television, the fax machine and most recently, the computer and the internet.

The opening of the region's economies is also more durable than in the past, in part because protectionism is not a viable alternative in our increasingly globalized world economy. Most Latin American countries do not have the resources to maintain closed economies and foreigners are increasingly reluctant to invest in such economies. Furthermore, despite the fact that Latin America's more-open economies have not lived up to the expectations of its citizens, there is now a critical mass in most countries that has benefited from the economic reforms. The most dramatic reform, in this regard, is the virtual elimination of inflation, and even of hyperinflation, in many countries. Argentina and Brazil are good examples. Other important reforms include the privatization of many state enterprises, which has resulted in improved and more efficient services and the reduction of government expenses.

Economic integration has also gone farther than in the past. The earlier experiment with integration in the 1960s had an essentially protectionist rationale, which contributed to its failure. Integration today, in contrast, is being implemented in the context of the new market-oriented economies. As a result, market forces rather than negotiated decisions among governments are, for the most part, determining what is produced and where it is produced.

Finally, relations between the United States and Latin America are more constructive today than in recent memory. This is partially the result of the Soviet collapse, which left the United States as "the only game in town." Since Latin American countries no longer were able to take advantage of U.S.-Soviet competition to gain greater advantages from Washington, they wanted and needed access to the U.S. market and to U.S. capital. Latin American governments, therefore, dropped their anti-American international postures and instead emphasized the mutual benefits that could be achieved by greater cooperation.

Remaining vulnerabilities in the region. Despite Latin America's impressive achievements over the past fifteen years, many problems remain. Perhaps the biggest threat to both the political and economic opening is the fact that the economic reforms have widened the already large gap between the rich and the poor in the region. In addition, there is dissatisfaction with the often unimpressive rates of economic growth and the high levels of unemployment resulting from the opening and restructuring of the Latin American economies. Finally, there is the

perception that the new democratic governments have been unable to deal effectively with corruption, criminality (much of which is drug related), and growing threats to personal security that characterize many Latin American democracies.

Although the reforms are being blamed for many of Latin America's current problems, the reality is more complicated. Corruption and political and economic inequality have long existed in Latin America. Furthermore, the unemployment and growing income inequality have more to do with the realities of the new global economy, which rewards the highly educated and penalizes the poorly educated, than with the so-called Washington consensus or any particular set of economic reforms. Finally, it is becoming increasingly apparent that the problem is not too much reform, but too little. Stated differently, those countries that have prospered most have been precisely the ones that have opened and restructured their economies most. The same can be said of the new democracies. Those countries that have acted most expeditiously in building and strengthening the institutions that democracy requires have the best prognosis.

The need for further reform. What, then, needs to be done? The unimplemented reform agenda includes political, economic and social reforms. High on the political list are judicial reform and the strengthening of the legal system. Without the rule of law, democracy cannot function and will ultimately fail. Effective legal systems are also required for well functioning market economies. In the economic area, tax

reform, labor reform and social security reform should receive high priority. In their absence, capital and labor cannot be used efficiently and productively. High on the social agenda is education reform, followed by health and welfare reform. Democracies and market economies that do not have well educated and healthy citizens can only go so far before they stall, especially in our increasingly technology-driven world.

It will not be easy to implement this so-called second stage of reforms. There are many vested interests that will oppose them. Also, the region's new democracies vary in their ability to work with them or oppose them. On the other hand, failure to implement the needed reforms will prove politically and economically costly, as we have recently seen in Venezuela and Ecuador. The big gap that exists between the rich and the poor makes large numbers of Latin American voters susceptible to the populist appeals of politicians. Valuable time and resources will be wasted on doomed populist experiments that attempt to reduce inequality by lavish spending rather than by implementing reforms to increase productivity. Once populism fails, these countries will have to implement the very reforms that they originally opposed.

What can the United States do to help? The main responsibility for carrying out the remaining reform agenda resides with the Latin Americans themselves. If Latin America's leaders are not committed to the reforms, little will be accomplished. Committed leaders, however, are not enough. These leaders must also effectively

explain to the citizens of their respective countries why the reforms are in their interest, how they have benefited and/or will ultimately benefit from them, and what will be done to help them navigate the difficult transition between the old and new economy. Unfortunately, this has not been adequately done in much of Latin America. To bring about additional change, this must be an integral part of future efforts.

That being said, there is much that the United States, as the most powerful, wealthy and influential country in the region, can do to facilitate the deepening of the reform process in Latin America. There are already programs in place to strengthen electoral processes, judicial systems, law enforcement, economic institutions and the like. If Congress determines that these programs are working well, they should be continued. In those countries where there are special problems, such as Colombia, the United States will have to increase its military and economic aid to the democratically-elected government and work with neighboring countries to solve or at least contain the problem.

The most effective policy that Washington could pursue, however, involves adamantly pursuing the implementation of a Western Hemisphere free trade area. It is precisely in this area that U.S. policy in recent years has been most disappointing.

The expansion of hemispheric free trade is important both for the future viability of democracy and market economies in the region. Under the right

conditions, it will make Latin American economies more productive and competitive. It will increase the potential for economic growth and job creation, thereby raising the living standards of the people of the region.

Not all of the benefits of hemispheric free trade, however, will go to Latin America. The United States is already benefiting from the opening and restructuring of the region's economies. Latin America is already the most important market in the developing world for U.S. exports. By the year 2010, total trade between Latin America and the United States is estimated to exceed the combined U.S. trade with Europe and Asia. In addition, the strengthening of trade relations between the United States and Latin America will help reinforce U.S.-Latin American relations in other areas.

We have already seen this happen in the case of Mexico. Since NAFTA (the North American Free Trade Agreement), trade between Mexico and the United States has almost tripled. The country has become a powerful exporter of manufactured goods. Jobs are being created at a rapid pace in the new, more high-tech economy and GDP growth in Mexico has begun to accelerate. The economic reforms and greater integration with the United States have also facilitated Mexico's transition to democracy. They helped decentralize economic and political power and gave democracy advocates a new forum outside of the country in which to press their case. Mexico's greater involvement with the United States has, in effect,

helped make the country's political culture less authoritarian and more democratic. Finally, it has facilitated the ability of the two governments to work together.

Of course, one would never know that NAFTA has been a success from the debates and discussions that have focused on it. These give the impression that NAFTA has been a failure. Organized labor in the United States vociferously blames it for the loss of U.S. jobs, the decline in U.S. wages, pollution on the U.S.-Mexican border, as well as crime, corruption and increases in drug trafficking in Mexico. It is true that the picture from Mexico is not all rosy. Many of Mexico's problems, however, preceded NAFTA. At the same time, the problems affecting U.S. labor have little to do with NAFTA and much more to do with changes in the global economy and the high-tech revolution.

Unfortunately, the American public has not been adequately informed about the benefits of NAFTA to both Mexico and the United States. Instead, the administration has accepted the negative interpretation of NAFTA's impact on both countries and has tried to ignore the whole issue of NAFTA. Nor did the administration press sufficiently hard to obtain a renewal of so-called fast track authority. To a certain extent this is understandable, given the political importance of organized labor to the Democratic Party, which controls the presidency. The fact that this is a presidential election year compounds the problem.

The next administration will have a new opportunity to spread the good word about NAFTA and to revive the momentum for establishing a hemispheric free trade area. Both Al Gore and George W. Bush are strongly committed to free trade. Furthermore, there are signs that organized labor has begun to reassess its position on a number of issues. Immigration is one of these. Instead of fighting immigration because it threatens U.S. jobs, the AFL-CIO recently called for increased immigration. In part, its reversal on the issue can be explained by the realization that new workers mean potential new recruits for the union movement.

A renewed push for hemispheric free trade, however, should not repeat the mistakes of the NAFTA campaign or the fast track effort. These campaigns focused too narrowly on the issues of job creation and the benefits that would accrue to the owners of capital in the United States and Latin America. The multi-faceted benefits that hemispheric integration will bring to the United States and Latin America must be explained. These benefits, which include the strengthening of democracy in Latin America, the possibility for higher standards of living in both Latin America and the United States, and better U.S.-Latin American relations, are as important to the free trade argument as is the increase in hemispheric trade itself.

Finally, the importance of U.S. leadership on the hemispheric free trade issue should not be underestimated. In the early 1990s, President Bush announced his Enterprise for the Americas Initiative, which included a call for the establishment of a Western Hemisphere free trade area by 2005. Few specific details were offered.

Nevertheless, the promise of access to the U.S. market and a special relationship with the United States captured the imagination of a new generation of Latin American leaders and gave them an added incentive to open and restructure their economies and strengthen their democratic institutions. With the recent defeat of fast track, however, Latin Americans felt that the United States had broken its promise and left them to fight the difficult battles for reform all by themselves.

I have no doubt that a renewed U.S. commitment to hemispheric free trade will energize Latin American leaders to press ahead with the second stage of reforms, which includes judicial, regulatory, tax, educational and welfare reform. It will also reinforce Washington's existing political, economic and social policies toward the region.

For these reasons, the creation of a free trade area of the Americas should be the number one priority of the next U.S. administration's Latin American policy. All other U.S. policy initiatives pale in importance compared to the many benefits that hemispheric free trade would bring to both Latin America and the United States.

"The U.S. and Latin America in the New Millennium: Outlook and Priorities"

Prepared Statement by
Dr. Jennifer McCoy
Director, Latin American and Caribbean Program, The Carter Center
Associate Professor of Political Science, Georgia State University
To
Subcommittee on Western Hemisphere
House Committee on International Relations
March 15, 2000

I appreciate the invitation to testify before the subcommittee on U.S.-Latin American relations as we enter the new millenium. I have studied and worked with the region over the last fifteen years as a professor of Latin American politics and as a policy consultant and director with The Carter Center based in Atlanta. I believe this is a crucial period for Latin American democracy and that sustained U.S. attention and partnership is critical to continue the economic and political progress made in the last decade in the hemisphere.

In my testimony, I will make the following points:

a) There is not a single region of Latin American and the Caribbean. Instead, there is more than one "Latin America", each with its own needs and priorities.

b) Democracy has survived since the transition of the 1970s and 1980s, but its social and economic performance is poor, and it is qualitatively thin, largely centered around elections. This leads people to distrust legislatures and political parties, and to choose strongmen and populist options.

c) Poverty and its underlying inequality have grown in the 1990s, despite economic reform and GDP growth. This remains the single largest challenge for the deepening of the region's democracies and raising its standard of living.

d) Latin Americans admire the U.S., but are increasingly skeptical about its commitment to hemispheric cooperation and democracy. The U.S. needs to lead as a democratic partner, joining in rather than imposing hemispheric solutions to address mutual needs.

More Than One Latin America

Overall statistics show positive, but lower than expected growth for the last decade, and a downturn in the last year. But there is a lot of regional variation. Likewise, changes of power have become routine, non-events in countries like Argentina and Chile and most of Central America after little more than a decade of civilian rule, while the

Andean countries and Paraguay are suffering from instability, authoritarianism, military uprisings, and a return to populism.

Emerging Markets: The emerging markets of Brazil, Argentina, Chile and Mexico have weathered the storms of the Mexican peso crisis, the Asian and Russian financial crises, and the 1999 Brazilian devaluation. The economic reforms of the last decade, support from the U.S. particularly for Mexico, and individual policy choices like convertibility in Argentina have shown their strength in surviving and overcoming these crises.

Democratic institutions have also fared surprisingly well in these countries in the midst of economic and other crises. Mexico is perhaps the biggest surprise case, with a decade-long political opening that is expected to culminate in honest and truly competitive elections in July of this year for the first time in seventy years. Chile weathered the reopening of the trauma of the Pinochet years with the attempted Spanish indictment of General Pinochet. Despite an extremely close election featuring the old enemies of the past – a Socialist and a Rightist – the election and run-off in January went smoothly and both winner and loser agreed to work together to implement a shared economic vision for the country. Argentina changed governments in December without fanfare, has reduced unemployment and enjoyed sustained economic growth. Nevertheless, like other large countries in the region, corruption is still a major issue and the public lacks confidence in its elected officials and institutions. Brazil suffers the world's worst income inequality, which has contributed to that country being perpetually the country with potential, never quite realized. An extremely able president has lost popularity and authority due to a constitution giving undue weight to states and regions, a squabbling Congress, and the inability to generate political support to address the endemic inequality and poverty.

Andean countries: These countries have fared more poorly. Venezuela, Colombia and Ecuador all suffered drops in GDP of 4-7% in 1999, despite oil wealth and (for Colombia) a tradition of fiscal balance. Venezuela and Ecuador, along with Peru and Guatemala, also represent the trend toward populist-authoritarian electoral solutions. In the past year, as traditional political parties failed to end corruption and address the needs of the masses, those same masses have elected a failed coup leader in Venezuela, supported a popular uprising that turned into a military coup in Ecuador, and elected a reformer backed by a former military dictator in Guatemala. In Peru, President Fujimori heads the polls for a third, constitutionally-questionable term in the April 2000 elections. Colombia and its potential spillover scares the rest of the continent as it struggles to deal with strong guerrilla movements and seemingly intractable drug lords.

Central America and the Caribbean: Central America is emerging from civil war while trying to recover from Hurricane Mitch. The peace accords have not yet been fully implemented, and the agro-export development model from previous decades will not be a solution for the 21st century. The Caribbean, with many long-standing democracies, struggles to find a workable economic model in a global economy. Both have been hurt

from NAFTA as factories and plants move to Mexico to take advantage of non-tariff entry into the U.S.

Democracy and Inequality

Although elections have become the accepted mode for the transition of power in most of the region, democratic development remains stunted. Citizens feel that, outside of the vote, they are unable to influence the outcome of events through political participation. Political accountability is lacking in a region with widespread corruption, non-independent judiciaries, weak legislatures, and where evading taxes is a national pasttime. In some countries with long experience in elections, even the electoral processes are being questioned as the fabric of democratic values becomes so frayed and distrust among adversaries mounts. Upcoming elections in Peru and Venezuela are two cases in point, where in the former, the government harasses the opposition and media censors itself to prevent candidates from purchasing advertising time, and in the latter, the opposition fears that the electoral authorities are partisan in favor of the ruling party.

In Ecuador, a tradition of political cannibalism and endemic corruption combined with an economic crisis to lead to a military coup against a reformist president in January. Ironically, long delays in IMF approval of fresh loans crippled a presidency that aimed to modernize the economy, and popular frustration at an economy careening out of control opened the door for a military coup – the first in over two decades in South America. It was international pressure, including from the United States, that persuaded the military to reinstate constitutional order, but not the ousted president.

More subtle forms of authoritarian involvement are growing throughout the region. As populations tire of growing crime, unabated corruption, poor public services, and in some cases, high inflation or guerrilla activity, the voters turn to populist saviors who promise to address their concerns even at the price of civil liberties. The new hybrid forms of democracy, in which former military officers or civilians backed by the military and their intelligence services are elected to office, rely on direct mandates from the people, ignoring representative institutions and constitutional niceties. The old style of direct military rule is unlikely to return to Latin America, but the new hybrid democracies heralded by Peru, Venezuela and Guatemala may become a new trend.

Persistent inequality dating back to colonial styles of property rights creates social and political exclusion, even beyond economic exclusion. Extreme patterns of income inequality helps to explain the puzzling phenomenon of economic growth leading to *increased* poverty in many countries. The gap between the rich and poor in Latin America has actually grown during the past two decades of economic reform, leaving more people under the poverty line even as per capita income rises.

Extreme inequality is also dangerous to democracy. Weak democratic institutions are susceptible to the influence of the economically powerful who resist reforms. The failure of democracies to deliver services and protection to their citizens erodes their legitimacy and makes alternative governance forms more attractive to desperate peoples.

In the most unequal country in the region – Brazil – only 50% of the populace preferred democratic government to other forms, and only 20% were satisfied with the way democracy worked, according to a 1996 Latinobarometer survey.

One of the keys to overcoming both inequality and poverty is education, as highlighted in the 1998 Summit of the Americas. Yet, inequality extends to education as the top 10% of income earners have an average of 11.3 years of education, compared with only 4 years for the poorest 30%.[1]

What Should the U.S. Do?

The U.S. should recognize that the Western hemisphere provides natural allies in a global economy of blocs and spheres of influence. Latin Americans are ready, even eager, to be our partners as long as the basis is one of mutual respect. The U.S. has historically and recently lacked a policy toward Latin America, swinging from crisis containment to benign neglect. It is time to engage as democratic partners.

I suggest the following priorities:

- **Reinitiate fast-track for the Free Trade of the Americas.** Chile was embarrassed after having been invited to the dinner during the 1994 Summit of the Americas, but then left standing at the door. Mercosur has turned to Europe as Brazil has taken advantage of the delay in the FTAA to establish its own regional position.

- **Pass NAFTA parity for Central America and the Caribbean.** Our unwillingess to open our borders to let small countries compete is both inconsistent with our own free trade principles and reflects an unwarranted lack of confidence in the U.S. labor force. Just as we absorbed a disproportionate share of costs to incorporate Japan and others into GATT forty years ago, we may need to do something similar for these small island states.

- **Give consistent and full backing to democratic institutions and leaders.** Recent State Department messages warning against Fujimori's manhandling of the electoral process are welcome, but need to be sustained and spread to other countries, first to Venezuela. U.S. government support of NGOs like NDI, IRI, IFES and the Carter Center provides a neutral and professional means to improve electoral processes around the region, but that support is declining at the moment when it could help to deter the new hybrid democracies.

- **Use the 2001 Summit of the Americas in Canada as an opportunity to address the democracy issue.** Members of The Carter Center's Council of Presidents and Prime Ministers requested that we hold a conference on challenges to democracy

[1] Terry Karl, "Economic Inequality and Democratic Instability," *Journal of Democracy* (January 2000): 154.

because of their deep fear of backsliding in the region. Latin Americans perceive that the U.S. is more interested in drug enforcement and immigration than strengthening democracies. We need a consistent message from U.S. agencies and non-governmental organizations, reflecting a single voice, that we do indeed care about democracy.

- **Encourage more politically and socially realistic IMF policies.** Even with proper economic prescriptions, political realities can prevent the adoption of full IMF remedies and undermine those courageous leaders who try, as just happened in Ecuador.

- **Show mutual respect for international norms that we value and want to instill in other countries by signing international treaties to protect human rights and combat corruption.** Engage fully in the OAS' new mutual evaluation drug strategy so that it soon replaces unilateral certification.

- **Avoid a tendency to focus on surface levels of electoralism in place of quality democracies, and on specific policy issues like drugs, immigration, and debt repayment instead of a systemic approach that can get at the roots of the problems and encourage Latin Americans to address them themselves.** The U.S. is a model that Latins appreciate and in many respects, seek to emulate, especially in terms of its industry, productivity, constitution, honesty, and incorporation of Latinos. People to people relations between North and South are doing well. Let's build on it.

Testimony Before the Subcommittee on the Western Hemisphere
House Committee on International Relations
U.S. House of Representatives

The United States and Latin America in the New Millennium:
Outlook and Priorities

March 15, 2000

By Sidney Weintraub
William E. Simon Chair in Political Economy
Center for Strategic and International Studies
Washington, D.C.

Latin America enters the twenty-first century much changed from what it was as recently as 20 years ago. The current realities include the following:

- Import restrictions are now modest. Tariff and nontariff barriers were reduced after the collapse of the import-substitution system in the early '80s. This was done unilaterally at first – that is, without seeking reciprocity – and many of the remaining barriers are being kept as bargaining chips, particularly for negotiations with the United States.
- The hemisphere is now wide open to foreign direct investment, which in recent years has replaced portfolio investment as the principal source of capital inflows. The "lost decade" of the 1980s was set off by foreign debts that could not be repaid. Debt financing was then favored over foreign direct investment on sovereignty grounds – a position which posited that nationals should control domestic industries.
- Many former state-owned enterprises have been privatized, indeed, more so in Latin America than in any other region of the world. Electricity generation, oil exploration and exploitation, banking, insurance, airlines, hotels have all been affected. These privatizations have not been without problems, but they represent a new philosophy – that the state should set macroeconomic policy but leave most economic operations to the private sector.
- This new philosophy is now dominant in Latin America. Call it what you wish – classic liberalism, neoliberalism, an aspect of globalization. It means that Latin America, in general, depends heavily on attracting foreign direct investment, raising exports, and relying on the private sector. This is not uniformly popular in individual countries; but it is the reality.
- Fiscal policy is now prudent and excessive public sector deficits are generally shunned. The emphasis in monetary policy is on keeping inflation down and

the countries in the hemisphere have had much success in accomplishing this objective. Inflation can no longer be called "the Latin American disease."

- The exchange rates in key countries – Mexico, Brazil, Chile, stand out – are now floating without significant central bank intervention. Argentina has a convertibility system under which pesos are freely exchangeable with U.S. dollars at one-to-one. Ecuador is considering dollarizing its currency. These policies were inconceivable 20 years ago.
- To depart from economic considerations for a moment, the growth of representative democracy has been remarkable over the past 20 years. This is by no means universal, but former military governments have given way to democracies in Brazil, Argentina, and Chile. Elections in these countries do not prevent alterations in governing parties. Mexico is on track to have the most open election in its modern history on July 2, 2000, and the contests for the presidency and the Chamber of Deputies look close. As I compare the structure and responsibilities of Mexico's Federal Electoral Institute, it makes ours look primitive and flimsy.

Please don't mistake what I am saying. Latin America has not reached nirvana. Colombia is suffering from a combination of lawlessness and economic deterioration. Venezuela's economy dropped precipitously last year and the future of its democratic structure is by no means certain. President Fujimori of Peru has contrived to make himself eligible for a third term despite a clear constitutional prohibition of this. The democratically elected president of Ecuador was forced out of office just a few months ago and the reason the military did not take over fully was the threat of economic sanctions by the United States. When the military attempted to assume power a few years ago, the other member countries of Mercosur (Argentina, Brazil, and Uruguay) threatened to expel Paraguay and they were supported by the United States.

There are grave social problems throughout the hemisphere. Income inequality and poverty have not diminished during the past two decades. Indeed, they have gotten worse – with the exception of Chile, where the poverty rate has been sharply reduced as a result of years of high economic growth. Structural economic problems have been addressed, as indicated above, but so-called second-generation reforms must still be accomplished. These deal with education, health care, and equal administration of the law. Many countries are infested with drug traffic and accompanying violence. Major cities in the hemisphere have become much less safe than they were 20 years ago. There are a variety of reasons for this, from drug traffic to poverty to income inequality.

The presentation thus far has given much emphasis to the hemispheric situation and not enough to the individual situations. To set the economic context for particularization among the countries, Table 1 shows the rates of growth of gross domestic product in selected countries. As this table shows for Latin America generally, 1998 was a modest year, 1999 an awful year, and 2000 holds much promise.

TABLE 1
Selected Latin American Countries: Real GDP Changes
(Percent)

	1998	1999	2000
Argentina	2.2	-3.0	1.5
Brazil	3.9	-1.0	4.0
Chile	3.4	-0.4	5.5
Columbia	0.6	0.0	2.6
Dominican Republic	7.3	7.0	7.0
Ecuador	0.4	-7.0	1.5
Guatemala	4.9	3.9	4.5
Mexico	4.6	3.7	5.0
Peru	0.7	3.0	5.5
Uruguay	4.5	-2.0	2.5
Venezuela	-0.7	-7.6	1.6
Western Hemisphere Developing Countries	2.2	0.1	3.9

Source: IMF, World Economic Outlook, October 1999, p. 20.
Mexican 1999 figure from Mexican Finance Ministry.
Note: 1999 data preliminary; 2000 data estimated.

Of the major countries, Mexico was the best performer in the economic arena in 1999 and looks set to do well again in 2000. Brazil did not have a good year economically in 1999, even if not as awful as had been anticipated, but looks set to do well this year. Argentina suffered much in 1999 from the problems of Brazil, its neighbor and largest export market, but looks on track to recover modestly this year. The worst performer in 1999 was Venezuela and its prospect for this year, while better (in large part because of high oil prices), is hardly promising. The Dominican Republic is doing well economically and so, too, even if to a lesser extent, is Peru. Chile had an off year in 1999, largely from the fallout of the Asian crisis (the low price of copper based on declining Asian demand), but is on track to achieve its normal growth this year. Table 1 gives the necessary figures.

I will conclude with some recommendations for U.S. policy toward the hemisphere.

1. The United States must engage with Latin America on trade policy. Failing this, there can be no fully constructive and cooperative relationship. This is because hemispheric economic policy has accepted the reality of globalization and 40 percent of the globe for Latin America as a whole, in trade terms, is the United States. Trade engagement means approval of fast-track authority so that negotiations for the Free Trade Area of the Americas (FTAA) can be concluded on schedule in 2005.

It is worth noting that exporters shipping from U.S. soil must now overcome discrimination in Mercosur as compared with the member and associated countries of that grouping, in Chile vis-à-vis Mexico and Canada as well as Mercosur because of their free trade agreements, and potentially with respect to the European Union if it is able to conclude a free trade agreement with Mercosur. The FTAA would correct these deficiencies. We are giving up "our" hemisphere in which our trade prospects are otherwise exceedingly bright. This would be particularly unfortunate if economic recovery in Latin America takes place this year and then continues into the years ahead.

2. I do not believe that countries like Mexico or Colombia can solve their drug problems if we do not make drastic reductions in U.S. demand. Our demand puts too much money in the hands of vicious drug lords for these countries to cope. I do not believe that we can foster cooperation with other countries in the hemisphere by threatening to withhold certification. Most leaders of these countries want to end the drug lawlessness within their borders at least as much as we do. A certification process, if one is wanted, would be more effective if multilateralized, perhaps through the Organization of American States.

3. The U.S. government should continue to make the strengthening of democracy a major policy goal. This is welcomed by the people of the hemisphere. We have wavered on this in the past when despots seemed to offer greater stability, but we now know that destruction of democratic and human rights can not bring about durable stability.

4. Finally, we should give whatever support we can – financial in some cases, moral in all – to hemispheric leaders prepared to undertake the difficult second-generation reforms noted above.

The achievement of these reforms cannot occur peacefully in the absence of sustained economic growth in the hemisphere. Chile has demonstrated that poverty can be reduced when there is economic growth. Meeting budgetary needs for education and health care requires economic growth. High growth does not assure democracy, but stagnation makes democracy impossible. The United States must accept this primacy of economics. We cannot preach open markets if we do not open our market more fully. We cannot expect the kind of reforms we seek unless we carry out our part of the bargain with our hemispheric neighbors.

ECONOMIC CRISIS WON'T HALT LATIN AMERICA'S REFORMS

The Asian crisis hit Latin America's economies hard. But in most countries economic crisis has, if anything, strengthened the commitment to market-based reforms. On the other hand, it has also generated widespread interest in a new round of reform, one focusing on ways to make sure the gains from privatizing, de-regulating and opening up the region's economies are more widely shared.

La crise asiatique a lourdement frappé les économies de l'Amérique latine. Dans la plupart des pays, cependant, elle a tout de même renforcé l'engagement en faveur de l'économie de marché. Elle a également suscité un grand intérêt à l'égard d'une autre ronde de réformes — centrée, celle-là, sur les moyens à prendre pour que soient mieux partagés les gains issus de la privatisation, de la déréglementation et de l'ouverture des économies régionales.

Susan Kaufman Purcell

The 1990s were years of truly impressive economic reform in Latin America. Governments lowered barriers to trade and capital flows and encouraged foreign investment in an effort to help make the region's economies more efficient and globally competitive. The opening to the new global economy brought mixed blessings, however. Economic growth and foreign capital flows increased, but so did economic volatility, as Latin America became more vulnerable to events abroad over which it had little control. Despite fears the region's governments might retreat from their commitment to market-oriented reforms, they have so far stayed the course. In fact, in many cases, crises have been used to revive or accelerate the reform agenda. They have also led to a growing consensus on the need for a second generation of reforms to help stabilize and institutionalize the opening-up of Latin America's economies. What exactly should be done, however, remains the subject of intense debate.

During the first stage of reforms, Latin America privatized many of its inefficient and costly state enterprises in sectors such as oil and gas, infrastructure, telecommunications and manufacturing. The sale of these companies greatly increased the inflow of foreign capital to the region. In 1991, such flows totaled approximately $23 billion. By 1997 they had reached over $100 billion. The lowering of external tariffs and the creation of a number of free trade areas and common markets also increased foreign and domestic investment in the region, and gave a big boost to intra-regional trade. For example, trade between Mexico and the United States doubled during the first four years of the North American Free Trade Agreement (NAFTA). Among the four member countries of Mercosur (the South American common market) trade grew more than four-fold — from $4 billion in 1990 to $18 billion in 1997.

In addition to opening their economies, Latin American governments moved toward budget balance and, in some cases, adopted fixed exchange rates in order to reduce inflation. Progress was especially

The recent string of crises has left Latin Americans unhappy with the erratic and uneven benefits that a decade or so of economic reforms has brought.

notable in Argentina, where inflation declined from four digits to just one digit in less than a decade, and in Brazil, whose inflation rate went from 2,541 per cent in 1993 to 15 per cent in 1997. In the region as a whole, inflation fell from 196 per cent in 1991 to 11 per cent by 1997. And although the combination of austerity programs and external economic shocks made it difficult to register consistently high levels of economic growth, by 1997 Latin America had achieved a GDP growth rate of over five per cent.

That year also marks the beginning of a series of external shocks that threatened the prospects for Latin America's growth, as well as the sustainability of its economic reform. The Asian crisis that began with the devaluation of Thailand's *baht* in mid-1997 undermined confidence in all emerging markets. Within Latin America, Brazil's overvalued currency was a particular target. But instead of succumbing to financial pressures, Brazil and its neighbors used the crisis to overcome political resistance to additional needed reforms. This was the second time in this decade that the region responded to a loss of confidence abroad by reaffirming and deepening its commitment to market economics. The first was in 1995, immediately after the Mexican devaluation of December 1994.

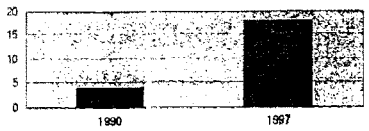
Although Latin America managed to limit the contagion from the initial phases of the Asian crisis, the decline in world commodity prices that followed the slowdown in Asia soon took its toll. Despite the many reforms that have been implemented, the region still depends on commodities for two-thirds of its export revenues. The steep decline in oil prices proved particularly devastating to Mexico, Venezuela and Ecuador, while low copper prices hit Chile hard. The Russian default, however, was the proverbial straw that broke the camel's back. After using nearly $50 billion of its reserves to defend its currency, in January of this year Brazil was forced to devalue. The perception that the economy was spinning out of control initially produced forecasts of negative growth of four to five per cent for Brazil and little or no growth in the rest of Latin America for 1999.

Once again Latin America surprised the pessimists. Despite fears that Brazil's devaluation would trigger rampant inflation, a return to wage indexing and the potential abandonment of the commitment to an open economy, the government instead hiked interest rates, raised taxes, took further steps to put its fiscal house more in order and signed an agreement with the IMF. Within four months, the situation had stabilized and Brazil was able to issue an international bond for over $1 billion. Mexico and Argentina had been able to issue their own international bonds even sooner. As in earlier crises, they, too, had reacted to the events that began in late 1997 by accommodating to market forces instead of abandoning the market.

Although Latin America's economies will not decline as much as had been forecast in the immediate aftermath of Brazil's devaluation, 1999 will not be a good year for the region. GDP growth will probably fall below two per cent, down from an average of about 2.5 per cent in 1998. Brazil's economy, by far the largest in the region, is expected to contract by more than three per cent. Net capital inflows to Latin America are unlikely to exceed $65 billion, down from $88 billion in 1998. The outlook for 2000 is considerably better, however. The IMF is forecasting that economic growth will reach 3.5 per cent — assuming that: the US economy continues to grow, the Federal Reserve Board does not raise interest rates significantly, and there are no major new crises abroad.

The fact remains, however, that the recent string of crises has left Latin Americans unhappy with the erratic and uneven benefits that a decade or so of economic reforms has brought. Fortunately, this dissatisfaction has not yet produced a broad-based movement to roll back or reverse the market reforms. Instead, it has generated a lively and interesting debate concerning the need for a second stage of reforms. These are reforms that would help create more sustainable economic growth and ensure that its benefits are shared more fairly among the different sectors of the population.

Trade among Mercosur members, in $US billions



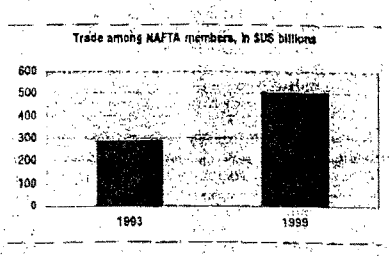
Dissatisfaction has not yet produced a broad-based movement to roll back or reverse the market reforms. Instead, it has generated a lively and interesting debate concerning the need for a second stage of reforms.

The Brazilian devaluation moved the issue of exchange rate reform higher on the list of policy changes needed during the second stage of reforms. Before January of this year, Brazil's currency had been allowed to float within a defined band. Several years earlier, Argentina had adopted a fixed exchange rate, pegging its currency to the dollar, while Mexico, in the aftermath of its December 1994 devaluation, had adopted a floating exchange rate. After considerable debate, a consensus has now emerged that the best option for sustainable economic growth is either a completely fixed or a totally floating exchange rate, rather than something in between.

Recently, support has grown for "dollarization" — a form of fixed exchange rate — perhaps on the assumption that once Latin America uses the dollar, its economies will function more like that of the United States. There is no agreement yet, however, over whether dollarization is either feasible or desirable. Some oppose it on sovereignty grounds. Others claim that in order for dollarization to work, Latin American countries must first implement additional economic and legal reforms. Still other analysts argue that once these reforms are made dollarization will then be unnecessary, since these additional reforms would have stabilized the Latin economies.

Among the many other reforms that have received attention as a result of the economic crisis are:

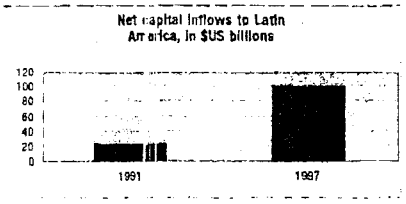
- Capital controls aimed at reducing the entry and exit of short-term capital. Given the fact that the recent crises have reduced Latin America's access to foreign capital, more attention is being given to the capital outflow side. Analysts have pointed out, however, that capital's ability to leave a country plays an important part in determining whether it will enter, so that restrictions on exit may be counter-productive.
- Measures to increase domestic savings rates. The idea here is to make economies less vulnerable to swings in investment. The average savings rate in Latin America was 19 per cent of GDP in 1997, compared with about 34 per cent in Asia. Only Chile, which saved 28 per cent of its GDP, came close to matching Asia's performance. Latin American savings rates were going up before the Asian crisis. In its aftermath, however, they have declined.
- Banking reform. In most Latin American economies the banking system continues to be under-capitalized, insufficiently transparent and under-regulated. Argentina and Chile are the most noteworthy exceptions to this generalization, and Brazil has made important progress. Additional banking reforms likely are needed to reduce Latin America's vulnerability to external economic shocks.
- Labor market reform. Making it easier to hire and fire workers is a top priority for governments and the private sector in most countries. High levels of unemployment, such as the 18 per cent rate in Sao Paulo, Brazil's largest city, make it politically difficult to implement labor reform. On the other hand, reform's supporters argue that employers will remain reluctant to hire new workers as long as it is so difficult and costly to fire them.

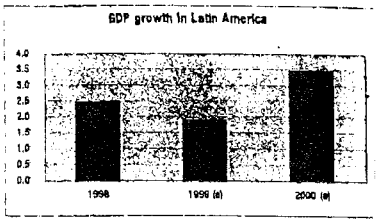


- Further privatization. After politically relatively easy sell-offs in the 1980s and early 1990s, the privatization of industries that in some countries symbolize national sovereignty is now at least being discussed. These privatizations include oil companies (Pemex in Mexico, Petrobras in Brazil and PDVSA in Venezuela), electric companies and large financial institutions still owned by the state. Political resistance to such privatizations undoubtedly will persist unless and until it becomes clear that their ownership by the state has become too costly to sustain.

- Social reforms. There is also a new emphasis on the need for social reforms. Educational reform has been receiving special attention. Although there have been calls for increased spending on education, the problem is not so much the amount of money spent as it is how money is spent. Before the Asian crisis, for example, Latin America spent a larger percentage of its GDP on education than East Asia did — 3.7 per cent of GDP compared with 3.4 per cent in East Asia. But while in Asia most resources go to the elementary or primary school level, in Latin America elementary school education, which teaches basic skills such as reading, writing and arithmetic, receives proportionately fewer resources than universities do. And in many Latin American countries, secondary or high school is almost entirely in private hands. The impetus is growing, however, for reversing priorities and ensuring that all children get at least a basic education. Pressure is also mounting to reduce bureaucracy within the educational sector.
- Improved distribution of income. A more equitable distribution of the benefits of economic reform is also viewed as necessary for maintaining political support for a market economy. Although there is a widespread perception throughout Latin America that policies such as privatization have mainly benefited the rich, a recent study published by the Economic Commission for Latin America and the Caribbean (ECLAC) argues that in fact poverty in the region fell from 41 per cent in 1990 to 36 per cent in 1997 as a result of economic growth and a decline in inflation. It is true, on the other hand, that the number of individuals living in poverty increased. The report also noted that one year of recession could eradicate between half and all the gains made during four or five years of economic growth. Unfortunately, this is now the situation in a number of Latin American countries.

Even before the reforms, Latin America had one of the most inequitable distributions of income in the world. The gap between the rich and the poor was





greatest in Brazil and Mexico. This persistent inequality and a growing sense of its unfairness remains the soft underbelly of Latin America's reform process, leaving the region vulnerable to appeals from populist demagogues who promise to improve the situation of the poor at the expense of the rich. This is not conducive to democratic stability and sustained economic growth.

Unfortunately, there is no agreement on how to correct the problem of skewed income distribution. On the economic side the need for a more progressive tax system and better collection of taxes is receiving increased attention. So, too, is the need for legal and judicial reform, since the current systems are rife with corruption and consistently favor the rich and well positioned in society over those with few political and economic resources.

In conclusion, the agenda for the second stage of Latin American reforms is large and still growing. The fact that these issues are increasingly being discussed and debated within democratic political frameworks is cause for considerable optimism. Recent public opinion polls indicate that while people are disillusioned or unhappy with some elements of the reform process, for the most part they do not want to return to the *status quo ante*, nor do many of them believe it is possible to do so. Instead, they wish to remain part of the new global economy, but to be better positioned within it. In the best-case scenario, this should encourage Latin America's leaders to continue along the path of reform, but in a more socially-conscious way.

Susan Kaufman Purcell is vice-president of the Council of the Americas. Before joining the Council, Dr. Purcell was director of the Latin America project at the Council on Foreign Relations. She also served as the Latin America specialist on the US Department of State's Policy Planning Staff, and taught Latin American politics at the University of California, Los Angeles.

Question from Rep. Mark Sanford

Cuba

1. How effective do you think our current Cuba policy has been?

2. Presently, what is the outlook for democratic change in Cuba? What are your thoughts about democracy in Cuba after Castro is out of the picture?

3. What impact do you think person to person diplomacy has had on the Cuban people? What impact would an increase in American visitors have on Cuba?

4. Do you think that permitting Americans to travel freely to Cuba would have a positive impact on bringing democracy to Cuba?

Responses to Rep. Mark Sanford

Cuba

1. How effective do you think our current Cuba policy has been?

The U.S. policy towards Cuba has not been effective at all. Castro is still in power; Cuba remains a repressive police state; and most of the country's 12 million people are desperately poor.

Forty years have passed since the United States imposed its embargo on Cuba. More than five have gone by since the Soviet Union halted its multi-billion dollar subsidies to the island. Cuba's economy is in shambles -- per capita income has dropped more than 50 per cent since 1990-- yet, there is nothing to suggest that Fidel Castro's authority has diminished at all. Nor is there any indication that he is prepared to reduce his grip on power.

Recall the failure of US economic and diplomatic sanctions to unseat (or even to come close to unseating) other dictators such as Raul Cedras in Haiti, Manuel Noriega in Panama, or Saddam Hussein in Iraq. And none of them was more firmly entrenched than Fidel Castro is today or probably enjoyed greater popular support and international acceptance. Indeed, the United States stands alone in sanctioning Cuba, unlike the other countries, on which sanctions were collectively imposed by many nations. The US embargo, in fact, may be fortifying Castro's hold on power--by providing him a ready-made excuse for Cuba's economic failings and allowing him to manipulate nationalist sentiments.

The embargo has only served to injure and alienate ordinary Cubans, weakening the island' s civil society, and retarding the prospects of political change. It has also

greatly reduced US policy flexibility and worked to eliminate any chance of Washington exerting international leadership on Cuba

The U.S. should stop targeting its policies toward one man -- Fidel Castro. Short of a military invasion or assassination--both currently inconceivable--there is nothing that the United States can do either to depose or force him to make Cuban politics more humane or democratic. The country should, instead, lend its support to efforts aimed at helping the Cuban people. While continuing to oppose his regime, US policy would best be directed, not to subverting Castro, but to working with other countries on laying the groundwork for Cuba's peaceful transition to democracy and a market-based economy.

2. Presently, what is the outlook for democratic change in Cuba? What are your thoughts about democracy in Cuba after Castro is out of the picture?

There is no question that Cuba, like most other formerly socialist countries, will in time turn toward democratic politics and market economics. The questions are only when--and how. Sooner is clearly better, but it is also important that the transition be peaceful and that a foundation be established for stable democracy and economic advance.

The Eastern Europe experience of the past five years is instructive. Former Soviet bloc countries that had enjoyed relatively open relations with the US and Western Europe--Hungary and Czechoslovakia, for example--have achieved far greater economic and political success than those that had remained closed and isolated--like Albania and Bulgaria. In Eastern Europe, internal change has been facilitated and enriched by prior international opening. The same is likely to be true in Cuba.

Instead of moving further to isolate the island, Washington should start paving the way toward a peaceful future transition. And any strategy will require a more active US engagement and a lifting of many restrictions of the embargo.

3. What impact do you think person to person diplomacy has had on the Cuban people? What impact would an increase in American visitors have on Cuba?

4. Do you think permitting Americans to travel freely to Cuba would have a positive impact on bringing democracy to the island?

The freest possible flow of people, ideas, and information to Cuba should be the US objective. No American should be barred from traveling to Cuba, and no Cuban kept out of the US for political or ideological reasons, provided that Havana ends all restrictions on the free movement of people and goods with the rest of the world. The embargo would, in short, be lifted in both directions. By encouraging a wide range of open international exchange with Cuba, the U.S. will be creating conditions for individuals and institutions in the island to act independently of the state -- a basic requisite of any democratic transition.

Public and private institutions in the US should seek to provide Cubans with wide access to different means of communications. They should also establish a massive program of fellowships that would enable large numbers of Cubans to enroll in graduate and undergraduate programs at American universities and begin learning the skills needed to make a modern society work. Financing should also be made available to encourage US universities and independent research outfits to establish training programs within Cuba--as several other countries have begun to do on a small scale.

Given the critical importance that economic management (for political stability as well as economic progress) has had in the success or failure of every transition from Communism, particular emphasis should be given to the study of economics, business management, industrial organization, labor relations, and related fields. Expertise in all of these crucial areas is virtually non-existent in Cuba today.

This kind of massive training effort is crucial to the success of democratic transition. The existence of a large contingent of well-trained Cuban exiles in the United States increases the importance of building the skills of those who have remained in the island. The exile community should be encouraged to invest in Cuba, to start new businesses, and to come to practice their professions. But it is the Cubans in Cuba today who must oversee the transition, who must take primary responsibility for reshaping the Cuban economy and political system, who must make Cubans feel comfortable with the radical changes that will take place in the country. It would be dangerous and self-defeating if most Cubans ended up thinking that democracy and market economics were foreign implants.

Washington should also pursue agreements with Havana in areas of mutual interest, such as migration, the control of narcotrafficking and environmental protection in the Caribbean. These are all issues that will eventually have to be dealt with by the two governments. Moreover, the United States should make plain that specific economic and political reforms by Cuba, even if they are not part of a structured negotiation, would be met by parallel changes in US policy.

Finally, the US should also lift its veto on communications between the Cuban government and regional and international financial institutions--including the World

Bank, the International Monetary Fund, and the Inter-American Development Bank. All of these institutions will play central roles in Cuba's transition, as they have elsewhere. The better they know Cuba and the greater experience Cuba has in dealing with them, the easier the economic transition will be.

This may or may not be the fastest way to achieve a new government on the island, but it is almost certainly the best way to foster democracy and economic progress following the change in regime. It is fanciful to try to predict when Castro will leave power. But the proposal for free exchange makes sense whether he departs next week or finds a way to stick around for another decade or two.

Answers to questions on Cuba
posed by Representative Mark Sanford.

From Dr. Susan Kaufman Purcell
Vice President
Americas Society/Council of the Americas

1. How effective do you think our current Cuba policy has been?

The answer to this question depends on one's sense of the main goals of the policy. I understand the current policy's main goals to be the following:

1) Help change the balance of power between the Cuban government and the Cuban people by keeping new resources out of the hands of the government and getting as many resources as possible into the hands of the Cuban people,
2) Minimize Castro's ability to do damage to U.S. interests in Latin America and the Caribbean,
3) Maintain economic pressure on the Castro government in order to force him to make economic reforms,
4) Help ensure that the Castro economic and political model is perceived as a failure throughout Latin America, and
5) Discourage third countries from investing in Cuba.

In my opinion, when measured against these goals, the policy has been quite successful.

2. Presently, what is the outlook for democratic change in Cuba? What are your thoughts about democracy in Cuba after Castro is out of the picture?

I believe that there is no possibility for democratic change in Cuba as long as Fidel Castro retains political control. Castro has neither the desire nor intention to share power with anyone. After Castro is out of the picture, the possibility for a transition to democracy is reasonably high. It might be preceded by a short-term military regime. In addition, the new democratic regime could contain many of the Communist leaders who served Castro. In the latter case, however, they will probably have reinvented themselves as Social Democrats. If there is to be a successful democratic transition, I have no doubt the U.S. government will have to play a constructive role in terms of economic and political aid and support.

3. What impact do you think person-to-person diplomacy has had on the Cuban people? What impact would an increase in American visitors have on Cuba?

I do not understand how the term "person-to-person diplomacy" is being used. If the question refers to informal contacts between private U.S. citizens and the Cuban people, the answer is difficult to assess. The answer depends on what kinds of Cubans are meeting with what kinds of Americans. If the question refers to contacts between U.S. private citizens and the Cuban government, the impact is still hard to assess and would depend on what is being said by the U.S. citizens and to whom. I would be happy to try and answer a rewritten form of this question.

If more Americans were to visit Cuba, and the main economic beneficiary of the visits was the Cuban government, then Castro's control would be strengthened. If Cuban citizens were the main economic beneficiaries of the visits, however, the prospects for a democratic transition would be strengthened. The issue, once again, is the balance of power between the Castro government and the Cuban people. If the overwhelming majority of the economic resources remains in government hands, an increase in visits by Americans would strengthen the status quo in Cuba. If the new resources were to go mainly to the Cuban people, their ability to resist the regime would increase.

It would be interesting to see an analysis of the current spending patterns of tourists in Cuba and the impact of their spending on the balance of power between the government and people of Cuba.

4. Do you think that permitting Americans to travel freely to Cuba would have a positive impact on bringing democracy to Cuba?

This question is similar to the preceding one. If all Americans visiting Cuba were obliged to use government-owned transportation, and stay in government-owned hotels and/or pay a lump sum of money to the government hotels, whether they are used or not, then the economic impact of the increased travel would continue benefiting the current regime. The political impact of free American travel would depend on the degree of freedom given to American tourists on the island. Could they visit and speak with anyone they wished? Could they freely bring books and leave them in Cuba without serious consequences? Or would they have to accept the system of tourism apartheid that currently exists?

Responses to questions from Rep. Mark Sanford on Cuba

By Sidney Weintraub

1. How effective do you think our current Cuba policy has been?

   I think that our policy toward Cuba had much rationale when Cuba was a close ally of the Soviet Union. Once this relationship terminated, I believe that our effort to isolate Cuba has not promoted internal dissent against the Castro regime or offered much hope to Cuban nationals who would prefer closer contact with the United States.

2. Presently, what is the outlook for democratic change in Cuba? What are your thoughts about democracy in Cuba after Castro is out of the picture?

   Our policy toward Cuba, in my judgment, should be based in large part on how we can best encourage a peaceful transition to democratic and market norms in Cuba. This is best achieved, I believe, by more contact with American companies, more trade in vital foodstuffs and medicines, and more visitors from the United States. Under these circumstances, it may be possible to avoid widespread bloodshed and a relatively peaceful transition and important steps toward democratic choice. Cuba has many talented people who would welcome the opportunity to have increased contact with Americans.

3. What impact do you think person to person diplomacy has had on the Cuban people? What impact would an increase in American visitors have on Cuba?

   My view is that the more Americans can visit Cuba and communicate with Cubans, the more peaceful and productive the transition to democracy and a market economy will be. In that way, the change from the currently controlled to a market economy will be less abrupt; and the transition to a market economy is a necessary precondition to installing a democratic structure.

4. Do you think that permitting Americans to travel freely to Cuba would have a positive impact on bringing democracy to Cuba?

   I have already stated that I believe the more Americans are permitted to travel to Cuba, the smoother the transition to democracy will be once Castro leaves the scene.

SUBMITTED BY H.E. RUBENS A. BARBOSA, AMBASSADOR
EMBASSY OF BRAZIL

US NATIONAL INTERESTS AND THE WESTERN HEMISPHERE
THE CASE FOR A NEW APPROACH AND THE ROLE OF BRAZIL

A NEW APPROACH TO THE HEMISPHERE

Despite the favorable conditions and great opportunities it offers for US interests, Latin America still ranks low among the priorities of US foreign policy and policy makers.

A reassessment of the present US policy toward the region and the formulation of a new strategic approach to the Hemisphere should take into consideration:

1) the significance of US national interests (i.e. economic and financial importance to the US economy) as opposed to national security considerations (the United States has vital interests in Latin America that may directly or indirectly affect its security, but the region presents neither imminent nor foreseeable military threats);

2) the fact that the concept of Latin America today has only cultural and historical significance; it has outlived its usefulness to US national interests as it tends to focus attention almost exclusively on Mexico and Central America & the Caribbean;

3) the advantages of adopting different strategic approaches towards the three very different areas within the region. For North America and Central America & the Caribbean there are strategic policies reflected in NAFTA and the CBI. In terms of South America, however, there is a lack of coherent strategic thinking so far.

Why is this new approach needed? Because of the extraordinary economic potential of the region – especially South America – in terms of trade and investment. It is the only region in the world where the US has enjoyed consistent trade surpluses and where the American cultural and entertainment industries, the fastest growing in the new services economy, face no significant challenges or rejection.

THE US AND THE WESTERN HEMISPHERE

In the '90s the region experienced significant positive changes and a fast process of modernization: consolidation of democracy; opening up and stabilization of market oriented economies; reduction of inflation to world standards; introduction of new standards in intellectual property protection; and creation of extraordinary business opportunities, including huge deregulation and privatization programs.

Today, the region is already a bigger market for US companies than Europe. It is also the fastest growing market for US exports.

The USTR has acknowledged that by 2010 Latin American markets will become more important to US companies than those of Europe and Japan combined.

Western values and principles are the rule in the region, reflecting a region-wide commitment to democracy and the rule of law.

Regional integration has become a commom goal and Mercosul (a subregional trading organization formed by Brazil, Argentina, Uruguay and Paraguay, with Bolivia and Chile as associate members) is the most significant result of that trend. Today, Mercosul is the second largest customs union in the world.

However, drugs and illegal immigration seem to be the only issues that continue to galvanize the attention of US policy makers. And to continue to hold that narrow view is to continue to miss the point.

NEW STRATEGIC THINKING TOWARD SOUTH AMERICA

With a population of roughly 337 million and a GDP of more than US$ 1 trillion, South America is an inviting and fast growing area for US trade and investment.

There is a great degree of convergence between the US and most countries in South America, and a new approach to enhance mutual interests on a mature and cooperative basis should be developed.

However, it would be counter-productive to try to establish a link between economic and trade issues, on the one hand, and security considerations, on the other hand, in US-South America relations. Such a linkage would generate unwarranted difficulties as the region embarks upon the final stages of the FTAA negotiations.

Interests and priorities concerning relations with the United States vary in the Hemisphere, and it would be a mistake from the US perspective to view South America as if it were a mere extension of Mexico, Central America or Cuba (immigration, for instance, is much less of an issue with South America).

A new strategy for South America should necessarily be based on fresh and comprehensive thinking regarding Brazil, one of the "Big Four" countries given its size and significance to US national interests. The traditional US foreign policy thinking about the "Big Ones" (Russia, China, India), mainly for national security considerations, should be expanded to include Brazil, for broader considerations of US national interests that have nothing to do with actual or perceived threats.

WHY BRAZIL?

In terms of GDP, Brazil is larger than Russia and India combined.

In terms of investment, US companies invest more in Brazil than in China, Russia, India or even Mexico.

In terms of trade, US exports to Brazil are larger than those to China, Russia or India.

Over 410 of the 500 largest US companies (as listed by *Fortune* magazine) operate in Brazil.

Brazil - a continental power in its own right - has been able to establish itself as a consistent and reliable player in the world stage, due in part to its cooperative stance and natural leadership in the subregion.

In view of its size and importance in South America, Brazil is the engine for growth in the region. Its economic and financial stability is therefore a matter of national interest to the United States.

Included by the Department of Commerce as one of the ten strategic partners of the United States, Brazil is a significant player in global trade negotiations, an honest broker in global issues discussions in multilateral fora, a natural candidate for a permanent seat at the UN Security Council, a full member of the newly formed G-20 and of the Bank of International Settlements. Brazil is also a party to all relevant treaties and arrangements related to non-proliferation.

Starting in 2003, Brazil and the United States will co-chair the last phase of the negotiations leading to a FTAA, which, if brought into being, will generate greater growth along with increased economic interdependence between the two countries.

RECOMMENDATION

US foreign policy in the new Administration should develop new strategic thinking with regard to the Hemisphere. The proposal of an FTAA appears to represent the beginning of a new approach, but it does not clearly indicate a change in strategic perceptions.

South America should be dealt with in a differentiated way and Brazil should be regarded as one of the "big four" countries that matter in terms of US national interests, together with China, Russia and India, although for different reasons.

Brazil is a natural choice for inclusion in the short list of US foreign policy priorities for reasons that have to do with opportunities rather than threats, and US national interests, rather than security concerns.

A decision along these lines would be consistent with the advancement of American interests and would have a major positive impact in terms of trade, investment and regional economic integration.