BRAZIL'S ECONOMIC CRISIS AND ITS IMPACT FOR INTERNATIONAL TRADE

HEARING

BEFORE THE

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INTERNATIONAL ECONOMIC POLICY AND TRADE

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BRAZIL'S ECONOMIC CRISIS AND ITS IMPACTFOR INTERNATIONAL TRADE

THURSDAY, FEBRUARY 25, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:04 p.m. in room 2172, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen [Chairwoman of the Subcommittee] presiding.

Ms. ROS-LEHTINEN. The Subcommittee will come to order. Thank you so much for being with us. We do not have any more votes on the floor today, so with this snow coming in in the Northeast, a lot of the Members are trying to get flights home, but I am sure that some will come as the meeting continues.

Shakespeare would say "All the world's a stage, and all the men and women merely players." Well, in today's global and interdependent economy this phrase takes on a whole new connotation, whereby one could readily say the world is one market and we are all but investors or economic indicators.

Certainly the aftermath of the Asian crisis, the ensuing Russian economic turmoil, and the current problems being faced by our hemispheric neighbor, Brazil, is a prime example of the interlocking nature of the global economy. It also illustrates the impact and the pressure of the markets; the power wielded by speculators and leading international investors; and perhaps, more importantly, the inevitable consequences of delaying reforms and the implementation of effective policy responses.

No one will dispute the fact that Brazil's clinging to its pegged exchange rate mechanism, its failure to cut spending in the face of huge fiscal deficits, its growing dependence on foreign capital sustaining a larger debt with shorter maturities, are the root and the cause of Brazil's current problems and, if not addressed effectively, could signal a new round of financial crisis in the near future.

No one will dispute that the tremors in Brazil do send shock waves throughout the world. For example, on Wednesday, January 13, Brazil's crisis and the specific decision to devaluate its currency shook U.S. investors, as the Dow Industrial average sagged more than 260 points in early trading. It is argued that United States investors are concerned because approximately 20 percent of United States exports end up in Latin America, primarily in Mexico and in Brazil.

The United States also underscores that as Brazil's currency loses value, Brazilians cannot afford to spend as much abroad for goods and services; that United States jobs in export-related sectors such as industrial machinery, software, and hospital equipment will be affected, as will other sectors.

An example of how Brazil's situation is affecting trade flows is the action taken by Italian car maker Fiat, which will start producing a model in Brazil which previously had been manufactured only in Argentina. Previously it had been reported that the company planned to increase production at its Brazilian plant. Analysts contend that such moves would reduce Argentina's exports to Brazil and will reinforce fears that the acute devaluation of the rial has begun to create a significant imbalance with the Mercosur trading bloc.

However, some would question whether this crisis is necessarily a bad thing. In most instances crises are interpreted as negative. However, many would argue that without such crises, one cannot fix the financial system. Speaking beyond Brazil, this was the message a few weeks ago from Jerry Jordan, president and CEO of the Federal Reserve Bank of Cleveland, a message echoed by many economists and bankers.

The fact is that the financial crisis of the mid-1970's meant the end of the gold standard and led to floating rates based on market mechanisms. The Mexican peso crisis led to some IMF reforms, as well as forced the Mexican government to implement much needed structural and fiscal reforms. The Asian crisis illustrated that Japan should not be the model and led to greater transparency in financial transactions and policies, all obviously positive outcomes.

Specifically relating to Brazil, we will hear testimony about how United States investors are not in a state of panic, contrary to some of the assertions made by analysts which I referred to earlier. The prospectus of United States investors in Brazil and similar countries is long-term, with contingencies to ride out the storms. In fact, according to one of the leading indicators, one of the firms, Brazil represents a moderate risk for investors.

Further, on January 20 it was reported that the Brazilian government was studying a cut in import tariffs to offset inflationary pressures brought on by the devaluation. To help United States businesses Argentina, unilaterally cut tariffs on capital goods from outside Mercosur from 14 percent to 6 percent. Certainly I can't think of any U.S. exporter who would be upset about a further opening of markets which would make American products more competitive.

Perhaps this move toward a more free-trade, market-driven policy could spill over to some Brazilian orange juice producers who have been penalized by the U.S. International Trade Administration for unfair trading practices.

In essence, it was the crisis which allowed market forces and pressures to take over in Brazil and drove the Brazilian Congress to vote on deep cuts in spending and approve reforms agreed to under the IMF assistance package. Parenthetically, that illustrates a dichotomy regarding the IMF's role, one which will be discussed further during the hearing.

In essence, the prognosis for Brazil's recovery from its economic ailments depends on the policy responses, and there certainly is a divergence of views of what is the best approach for Brazil.

Some economists and financial experts have stated that the policy of raising interest rates to defend Brazil's currency has been disastrous. Others expound that, due to volatile capital flows, Brazil's powerless to use interest rates to support its domestic economy. There are warnings about a fierce recession in sight for Brazil. Others focus on solutions such as the establishment of a currency board to set new monetary and fiscal discipline, similar to the one that Argentina adopted just a few years ago in 1991.

There has been no specific response from IMF officials or leaders from lender countries on these. However, several trade missions, including an IMF delegation, have been in Brazil in the last 2 or 3 weeks trying to negotiate terms for a new agreement which will allow for an early release of the IMF assistance, in particular the $9 billion of credits which Brazil is asking for as a sign of goodwill in order to stabilize its currency and curtail capital flight.

To reiterate, Brazil's importance as Latin America's largest economy and the world's eighth largest, mandate that this Subcommittee hold a hearing on the issue to gain a better understanding of the causes of the crisis, the current situation, and the prospects for the future.

I would like to also state, before I recognize our other Members of the panel, that we had rescheduled this hearing once because administration officials withdrew the day before the hearing, fearing that their testimony might have a negative impact on the markets.

We had secured administration witnesses for today's hearing, but Treasury officials became unavailable and the Department of Commerce was forced to withdraw their witness a day and a half before the hearing. We certainly hope that this does not continue with administration witnesses, nor does it become the operating procedure, so we hope to have a better cooperation from the agencies.

Now I am pleased to recognize Mr. Delahunt to make some opening statements.

Mr. DELAHUNT. Thank you, Madam Chairlady. I have no opening statements. I welcome this hearing, and look forward to the testimony.

Ms. ROS-LEHTINEN. Thank you so much.

Mr. Manzullo.

Mr. MANZULLO. No.

Ms. ROS-LEHTINEN. Thank you. I would like to then introduce our panelists who are joining us today. Our first witness is Paulo da Cunha, who is a senior vice president and senior Latin American economist for Lehman Brothers Global Economics Group. Prior to joining Lehman Brothers in June 1998, he was the lead economist from Mexico at the World Bank, among other positions he held at the bank. He has served as the chief financial officer of a large state enterprise in the State of Sao Paulo, as well as an advisor to the Secretaries of the Budget and Finance on issues regarding the renegotiation of wage contracts. He has also been researcher, associate professor of economics, editor in chief of the leading Brazilian academic publication on economics, and has served on the boards of several public and private institutions and corporations. We welcome Mr. Paulo da Cunha to our country.

Next I am pleased to introduce a constituent of mine, Mr. David Konfino—thank you, David, for being here—who is executive vice president of Union Planters Bank, International Division, and is also representing the Florida International Bankers Association. He manages all international lending activities for the bank's International Division, which is the leading provider of trade-related financing and other international products and services in the South Florida market. Prior to joining Union Planters Bank, Mr. Konfino was a senior vice president at NationsBank and served in various positions with that institution and its predecessor, the Citizens and Southern National Bank. We welcome you here, David.

Our third witness is Dr. Sidney Weintraub, who holds the William E. Simon Chair in Political Economics at the Center for Strategic and International Studies. He is also a professor emeritus at the Lyndon B. Johnson School of Public Affairs of the University of Texas at Austin. He was a member of the U.S. Foreign Service from 1949 to 1975, serving in various capacities, including Deputy Assistant Secretary of State for International Finance and Development, and is Assistant Administrator of USAID. He is widely published and is considered one of the foremost experts in his field. We welcome Dr. Weintraub to our Committee.

He is followed by Mark Smith, executive director of the U.S. Section of the Brazil-U.S. Business Council, and the regional director for Mercosur Affairs and Associate Director for Latin America at the U.S. Chamber of Commerce. Mark also serves as the director for Latin America on the Chamber's Global Telecommunications and Information Technology Task Force. Prior to assuming his current position, Mr. Smith worked in the Brazilian Embassy in the Trade Promotion Office as a trade analyst responsible for promotion of Brazilian exports of manufactured goods and information technology products. We welcome Mark as well.

Last but certainly not least, we will hear testimony from Gilbert Lee Sandler, founder and senior partner at Sandler, Travis and Rosenberg, South Florida's first firm to concentrate its practice in customs and international trade regulation. I am pleased to have Lee as a constituent and welcome his testimony here today. He has recently been appointed to his sixth term as an advisor to the U.S. Government on international trade negotiations under the Federal Advisory Committee Act, and elected to three terms on the board of the American Association of Exporters and Importers. He was recently appointed to serve on the Treasury Advisory Committee on Customs Operation, and is currently awaiting the completion of the process. He also serves as general counsel to numerous trade associations.

Congressman Bob Menendez and I welcome all of our witnesses here today. We commend you for all of your many accomplishments and the expertise that you bring to our hearing.

Before we hear from our panelists, I am very pleased to recognize the Ranking Member, Congressman Menendez.

Mr. MENENDEZ. Thank you, Madam Chairlady. I am sorry I got here a few minutes late. I was on the Senate side but speaking to constituents, so I regret that I couldn't be here at the very start.

In the interest of time, I am going to ask that my statement be included in the record.

Since this is our first meeting, Madam Chairlady, let me just state for the Members on the Democratic side of this Committee that we look forward to working with you on the issues that this Committee has jurisdiction over, on the Export Administration Act, on OPEC and Eximbank and others, and overview of trade issues. We think that this is an incredibly important Subcommittee to America's vitality and opportunities in the next century, and we hope to work in the spirit of bipartisanship that best meets our goals in terms of the jurisdictions that we have. We will be suggesting to you in the days ahead maybe some of the things our Members would like to see us cover.

With that, I look forward to the testimony of our witnesses.

Ms. ROS-LEHTINEN. Count on that. Thank you, Bob. Congressman Menendez and I have to go to a meeting in a few minutes, but we would like to turn the hearing over to Mr. Manzullo at this time. Thank you.

Mr. MANZULLO [presiding]. I can't pronounce some of these names as easily as the Chairman, but I will try, if you would bear with me. Mr. da Cunha.

Mr. DA CUNHA. Yes.

Ms. MANZULLO. The rules are—they are relatively easy rules. Try to limit your testimony to 5 minutes. There will be a green light and then a yellow light will go off. That means you have 1 minute left. The red light goes off, that means would like you to sum up as soon as possible. You could keep your testimony in a conversational style if you want. You don't have to read it. However you prepared it, we are anxious to read your remarks. Let me say here that all of the remarks of each of the witnesses will be made part of the permanent record. Pull the microphone up to you as close as possible, Mr. da Cunha.

STATEMENT OF PAOLO DA CUNHA, SENIOR VICE PRESIDENT AND SENIOR LATIN AMERICAN ECONOMIST, LEHMAN BROTHERS GLOBAL ECONOMICS GROUP

Mr. DA CUNHA. Wonderful Chairperson, Congressman, ladies and gentlemen, it is an honor and a privilege to be here today. I have been asked to provide the Subcommittee with answers to several questions. I prepared the background paper and will focus this statement on two issues, the implementation of stabilization policy and its likely success.

Having lost its exchange rate anchor, the nominal price system in Brazil is adrift and needs to be reanchored. It is my understanding that a program to this effect will be announced shortly. Price expectations will be anchored on the rate of money growth, and that in turn will be based, it appears, on explicit inflation targets set by the monetary authority. The floating exchange rate system will be maintained, fiscal policy will be adjusted further to compensate for some of the losses over the past months, and the key instrument of active policy will be the level of the interest rate.

The challenge the program faces in money markets is clear enough. Presently, not only is the rate in the interbank market high, on the order of 39 percent for repurchase agreements, it rises on future contracts. The rate on April contracts was 44 percent, and in excess of 46 percent for May contracts. What these rates tell us is that markets have a negative expectation about inflation in the future. At least they are uncertain.

What the program must do is change the shape of this yield curve. The critical measure of success is lower rates on future contracts. Why is this trend critical? Because it affects the interest costs under the domestic debt of the government. Today nearly three-quarters of the Federal debt is tied to the interbank overnight rate. The rate—the pace changes every day.

This means, should the rate remain high and in effect increase to the mid-40's by May and June, the interest bill of the Federal Government would increase by an amount beyond what it could pay through savings elsewhere in the budget. To pay this bill, the government would issue more debt, destabilizing the ratio of debt to GDP.

The market would expect at some point in the future the government would have to pay its interest bill by raising taxes or, more likely, printing money. Anticipating that outcome, it would charge today a rate that is consistent with the inflation expected for tomorrow.

It is important to note that we are dealing with a problem of expectations. The underlying rate of inflation is low, close to zero. The pass-through effect of the devaluation in January is limited, and there are no other cost push pressures in the economy. Nevertheless, because the government debt is priced daily at a market set by expectations, this price matters, and more so because the government is placing new debt every week. The maturity structure of the debt is so short that about one-third of the stock expires every 60 days.

Let me now turn to the issue of implementation. I believe that the new program will have faced two critical tests. The first will be given by its friends, that is, by the financial markets. The issue here will be the inversion of the yield curve and I believe the program will pass this test. In any event, we will know the outcome in 2 or 3 weeks after the program is announced.

The second test will be given by its opponents, that is, by the coalition of industry and labor, helped by the forces of the political opposition. I am afraid that the program may flunk this test.

The first issue has to do with the working of destabilization programs. We tend to think that the real rates are high after a monetary contraction because there are normal rigidities in the price system. Expectations adjust faster than actual prices.

I believe that the opposite will happen in this case. Prices may adjust quickly or in fact they may fail to increase. Expectations in the interest rate market may be recalcitrant, nonetheless. The future rates will fall and the shape of the yield curve will change to a downward sloping curve, but the size of the fall could be small, in other words, we may see rates of 35 percent in April and May.

The second issue has to do with the pace of the recession. Brazil has experienced two quarters of negative GDP growth and will experience at least another two, and my feeling is the speed of the contraction will increase. This has something to do with the level of the domestic real interest rate, but it has more to do with what is happening to capital inflows.

After Russia's default, voluntary lending to Brazilian firms nearly stopped, yet Brazil's growth model has been forced on foreign financing of the private sector. The more devalued currency and recession at home will stimulate exports but the response may take some time, and in any event world demand is depressed. I believe the output will continue to shrink and unemployment to expand, perhaps to as much as 14 and 15 percent in Sao Paulo in May and June.

The third issue and final one has to do with the political and economic timing. We often hear that financial markets move quickly and politics slowly, yet it may be that to solidify low inflation in a economy such as Brazil takes not 8 months but 8 years.

President Cardoso thought after the first 2 years of his first administration he could move beyond stabilization. He later recognized that this could not be so. He spent the last year and a half of his first administration fighting for and eventually winning reelection. On winning, he tried to accelerate the transition from stabilization to growth through a controlled devaluation. That experiment failed miserably and dealt a mortal blow to the Real Plan, the cornerstone of his popularity. He will try to regain his popularity by insisting on growth and rightly so.

The problem in my view is that he is likely to precipitate—my sense is that by midyear if not before, when inflation is low, the currency relatively stable, the external environment reasonably tranquil, but unemployment high and growing and political discontent thriving, then he will lose his pulse and in that environment a simple hesitation produces a shock. In January of this year, he pushed Humpty-Dumpty off the wall and now we are trying to put him together again. Another fall and the patches will break.

When faced with another episode of inflationary uncertainty, the financial market will look for the introduction of inflation indexed government debt. It will probably get it, and because by then we would see a return of adverse inflation expectations and because it will prove to be politically impossible to restrain indexation to government bonds, the economy will lose its nominal anchor with a return to uncontrolled inflation.

Thank you.

Mr. MANZULLO. Thank you. I didn't know that Humpty-Dumpty would find his way into this equation.

Mr. David Konfino, Executive Vice President, International Division of Union Planters Bank. Thank you for coming.

STATEMENT OF DAVID KONFINO, EXECUTIVE VICE PRESIDENT, INTERNATIONAL DIVISION, UNION PLANTERS BANK

Mr. KONFINO. I would like to thank the Chair and Members of this Committee for inviting me to speak with you today. Let me briefly tell you about my company so you may understand why the resolution of Brazil's problems are so important to us.

The Union Planters Bank was founded in Memphis, Tennessee some 130 years ago, and today is the 25th largest bank in the Nation in terms of assets. The bank's international operations are based in Miami due to that city's importance as an international financial center. Last year we issued some $700 million in letters of credit and carried out over $2 billion in trade finance operations.

International trade and U.S. exports are particularly important to our company because nearly 25 percent of all U.S. trade takes place within the 12-state franchises that our bank has. Brazil's $800 million economy is the world's ninth or eighth largest. It depends on what terms it is measured at. It accounts for nearly half of Latin America's total output of goods and services. In addition, it has become a very important magnet for capital investment, with some 9 out of the top 10 privatization and capital investment deals last year in Latin America taking place in that country.

Brazil's current problem was initially sparked by the 1997 Asian crisis followed by Russia's debt moratorium in August of last year and the subsequent erosion of investor confidence that finally ignited the current crisis that spread through developing countries. The event that finally ignited the current crisis was when the State of Minas Gerais declared a moratorium on the debt that it owes the Federal Government of Brazil on January 7.

Brazil's problem is in part due to a lack of governmental fiscal discipline and huge expenditures for political purposes which created enormous budget deficits, reaching some 8 percent of GDP. The cost of financing these mounting deficits drove up domestic debt to over $270 billion, which in turn has increased domestic interest rates to an unsustainable 40 percent.

Brazilian currency came under severe pressure in the months leading up to the current crisis and the government was forced to spend nearly $40 billion, or over half of its foreign reserves, in defending the currency. Finally, the government decided to stop defending the rial on January 13 and allowed it to flow freely. Since then the currency has plunged by some 70 percent.

Economists are forecasting that Brazil will go through a serious recession this year, with the economy shrinking up to 6 or 7 percent. It is likely that unemployment could run in the double digits for the first time in a number of years. Also with the recent devaluation of the currency, inflation, which was under control, is once again a major concern and is also expected to be in double digits.

Brazil's current difficulties will impact the United States and especially South Florida, one of Brazil's largest trading partners. Latin America accounts for nearly 10 percent of all U.S. exports, but in the case of South Florida that number is closer to 70 percent, so any region-wide downturn could cut deeply into profits of U.S. companies and severely impact South Florida's economy.

Brazil could have up to a $40 billion detrimental economic impact on United States companies if things deteriorate seriously, which could substantially slow United States profit growth this year. Moreover, United States banks have some $25 billion of loans to Brazil and would obviously be very severely impacted if Brazil were to declare a moratorium.

Brazil's problems could impact South Florida even more significantly. In 1998 over half a million Brazilians visited our area and spent over $700 million. Brazil's devalued currency immediately reduced the buying power, and industries such as travel, tourism, banking, stock brokerage, commercial real estate are all going to be affected.

Unfortunately Brazil's troubles are occurring at a very inopportune time for Miami. We have only recently begun to share in the boom and expansion of the United States economy. Even with job growth of around 2 percent for the last consecutive 2 years, the unemployment rate in the Miami area is in excess of 6 percent, which is well above the national average.

Brazil's neighbors are also likely to feel the impact of its problems. Argentina, for example, whose economy is very closely linked to Brazil, is likely to suffer a 4 percent decline in its growth. Overall, Brazil's current crisis could potentially cause Latin America's economies to shrink by at least 3 percent during the year.

We need to avoid, at all costs, a repeat of the 1992—I am sorry—repeat of the 1982 Latin American debt crisis which resulted in what has been called the lost decade—and I am almost finished—the lost decade for Latin America. For nearly 10 years we saw economic stagnation, high unemployment, a rise in poverty, corruption and misery.

This period, however, also gave rise to a strong movement for economic and political reform in the region. Great inroads have been made by almost all countries in Latin America in the last few years, and today's picture is a lot brighter than during the last region-wide economic crisis.

Every single country in the region, with the notable exception of Cuba, is ruled by a democratically elected government. Much of the inefficient state ownership of industrial production has been dismantled through massive privatization efforts. A middle class has begun to emerge in most countries, and progress has been made in fighting corruption, and judicial reform and much, much more.

However, if Brazil's crisis is allowed to get out of hand and spread throughout neighboring countries, within days or weeks the labor and progress of an entire decade could be erased. The United States needs to build a strong bridge of support for Brazil like we did for Mexico. We must use our influence with the IMF and other multinational organizations to assure a rapid resolution of the problem. United States and international investors must regain confidence and once again view Brazil and Latin America as attractive investment opportunities, and we must lend our expertise to Brazil in helping it to manage and restructure its huge internal debt and to avoid a default which could have disastrous consequences.

Thank you.

Mr. MANZULLO. Thank you very much.

Dr. Weintraub.

STATEMENT OF SIDNEY WEINTRAUB, WILLIAM E. SIMON CHAIR IN POLITICAL ECONOMICS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

Mr. WEINTRAUB. Thank you very much. I am going to make six points from the longer paper I gave you.

Mr. MANZULLO. Before you begin, I would like to welcome Congressman Brad Sherman from California who has just joined us.

Mr. WEINTRAUB. I try to keep them in sound bites so, more or less, I get it in in the 5 minutes.

First, the point stressed by the first witness about expectations, I want to emphasize that over and over again because I think it is a critical element of what is going on in Brazil. The vote in December on pension reform which failed, after he had made a commitment—this was one of the conditions of the loan from the IMF. It failed. I won't go into why but immediately, as soon as it failed, there was a sense that Brazil couldn't meet its obligations.

Put it differently, there was a sense that the President was not in full control of the political situation, and that was a bit unnerving. It got worse, as was stated just a few moments ago, when the Governor of Minas Gerais, Itamar Franco, raised problems about meeting his obligations to the central government. That conflict is still going on.

The legislation which is in progress, is now likely to pass. When faced with reality and disaster, the legislature began to think in a slightly different fashion.

Second, it was quite clear that a corrective devaluation was needed. Brazil was overvalued. They were trying to delay it. They have used about $40 to $45 billion in reserves in trying to protect the exchange rate. They couldn't protect it. They began to run out, and my own judgment is that the floating exchange rate they are now using is the correct policy. I really don't think they have any other real option.

There is a price to pay for all of this. The decline in the GDP I think will be about 5 percent. The rise in inflation, I don't know what it will be but it will be substantial, and that onus in itself destroys the objective of the Real Plan when it was introduced to get rid of inflation.

The third point is, despite a lot of criticisms of the IMF, I don't see any alternative but to reduce the large budget deficit that Brazil has. Failing to do that, they won't get confidence. I don't think Brazil can spend its way out of its problems the way some of the critics of the IMF are saying. There are problems. The interest rate is crushingly high. It may cause some defaults. It may require some later, in addition to rescheduling—to refinancing, it may need some restructuring, but I don't see any way out except to deal with the problems that brought on the crisis.

The fourth point would be the impact on Latin America. I don't think it will be as bad as the previous witness said. It will be very bad in Argentina. About a third of Argentina's exports go to Brazil. Argentina has been doing extremely well. Its exports are going to go down. But keep in mind that all of Argentina's exports are less than 10 percent of its GDP, so the total damage is not as bad as the damage that is implied by one-third of exports going to Brazil.

Having said that, I don't expect Argentina to grow this year. I don't think that will happen. The bigger danger I see is to keep Mercosur, the regional integration agreement going, and I think both countries will do everything possible to make sure that happens. There is too much in it for them.

My fifth point deals with the impact on the United States as a whole. Florida is a special case, and I admit that, but let me look at it as a whole. United States exports to Brazil are about $15 billion. It is not Mexico. United States exports to Mexico were $80 billion last year. There is a big difference. It is important but not crucial. Bank exposure to a good many banks in Brazil is high, but United States exposure as a whole is much less than European. United States foreign direct investment in Brazil is extremely high, and just how it works out depends a good deal on how quickly Brazil gets out of its problems.

On the recovery, I think the most important thing the Brazilians have to do is demonstrate that the government has control over its fiscal problems, which it still has to do, and only then can they get those crushingly high interest rates out, and I assume their policy will be as described by the first witness: inflation, inflation, inflation. In other words, they are going to inflate and they are going to target inflation. They can succeed. They can succeed by performance of control of their situation, and I think that can happen before the end of this year.

Mr. MANZULLO. Thank you, Doctor.

Mr. Smith.

STATEMENT OF MARK SMITH, EXECUTIVE DIRECTOR, U.S. SECTION, U.S.-BRAZIL BUSINESS COUNCIL

Mr. SMITH. Good afternoon. I am Mark Smith, executive director of the U.S. Section of the Brazil-U.S. Business Council. The Brazil-U.S. Business Council is a bilateral trade organization that works to provide a high-level private sector forum for the business communities of both countries to engage in substantive dialogue on trade and investment issues and communicate private sector priorities to both governments. The U.S. Section of the council represents the majority of the largest United States corporations invested in Brazil, and operates under the administrative aegis of the U.S. Chamber of Commerce.

My remarks today will cover three subjects: No. 1, the importance of Brazil to the United States economy; No. 2, the perspective of United States direct investors on Brazil's current economic problems and the measures taken by the Brazilian government and Congress to address them; No. 3, actions that can be taken by the United States and Brazil to strengthen an important commercial relationship.

I would like to start by talking about Brazil's importance to the United States economy and the trade picture. Brazil is for the United States the 11th largest export market in the world. The United States exported over $15 billion of products and services to Brazil last year, over 6 percent more than we sold to China, and in a tough year like 1998. In 1997, when we didn't have falling economic growth, we exported over 25 percent more to Brazil than we did to China. The United States has its third largest trade surplus in the world with Brazil, over $5 billion in 1998.

Now, I would like to look at exports to Brazil at the State level, and the key point I would like to make here is. Florida is not the only one who is really at risk here. Brazil is Florida's No. 1 export market in the world, accounting for over $2.6 billion in exports. Texas is the 8th largest, $1.2 billion. Illinois is the 9th largest, $1.1 billion. New York is the 11th largest, $1.2 billion, and California is the 17th largest, $1.4 billion.

That is the current picture, but if you look at the future picture, that is where the importance of Brazil really comes out if you look at the growth trends. From 1993 to 1997, Florida's exports to Brazil as a percentage of total exports grew from 3 percent to 11.3 percent. In the same period exports to Brazil as a percentage of total exports went from 1.5 percent to 3.1 percent in Illinois, from 1.1 percent to 2.2 percent in Texas, from 1.1—I am sorry, from 1.4 percent to 2.4 percent in New York and .9 percent to 1.3 percent in California. So you see that Brazil is becoming more and more important to the United States economy, particularly in these States.

The investment picture: The United States is the No. 1 foreign direct investor in Brazil. American companies have increased their presence significantly in the Brazilian market during the Cardoso administration by making winning bids on several major privatizations and telecommunications and electric power sections.

Now I would like to turn to what the members of the U.S. Section of the Brazil-U.S. Business Council think about Brazil's economic prospects. Clearly 1999 is going to be a very difficult year for Brazil. The IMF and the Brazilian government are basing the renegotiation of the IMF-led financial assistance package for Brazil on expectations of a 3 to 4 percent recession and over 11 percent inflation. Despite these projections, our members remain firmly committed to the Brazilian market and plan to maintain and even in some cases increase their investments. Why? Our members are committed to Brazil for the long term. They are not engaged in speculative investing, but are instead basing their investments on the medium- and long-term prospects for Brazil which they believe are extremely bright.

Now I would like to turn to the impact on U.S. trade. We believe that United States exports will decline significantly this year due to the lack of affordable credit for Brazilian companies and consumers, and the general decrease in Brazilian purchasing power resulting from the devaluation of the rial. In analyzing the impact on the U.S. economy, it is important to take into account two factors:

One, United States exports are tied to privatizations and the exports of the subsidiaries of United States multinationals in Brazil. Capital equipment accounts for over 70 percent of Brazil's imports. Many of these capital equipment purchases are tied to infrastructure investment commitments made as a part of the privatization process. These commitments will help ameliorate the impact on U.S. exports somewhat. United States companies are not only the largest investors in Brazil but they are among Brazil's largest exporters. The increased exports of these subsidiaries should help cushion the impact on U.S. corporate profits somewhat.

How has the Brazilian government responded? To date the Brazilian Congress has passed 90 percent of the 28 billion rial fiscal package connected to the IMF-led financial assistance package. This January, during an extraordinary session of the Brazilian Congress, measures were passed that will cut 9.6 billion rials off the public sector deficit. During the new session of Congress opened this week, we expect the additional 10 percent will be passed quickly.

The key thing is that the Brazilian democratic system has reacted positively and convincingly to Brazil's fiscal challenges. As in every democracy, there is give and take, but the fact that the measures are being implemented with the support of the Brazilian people through democratic means is extremely important.

What can be done by the Brazilian and U.S. Governments to strengthen the Brazil-United States commercial relationship? First and foremost, the expansion of the Free Trade Era of the Americas negotiation through the approval of Fast Track negotiating authority limited to trade issues. We expect that there will be increased cause here in the United States for protection against Brazilian exports. Our current trade laws are important safeguards for ensuring that Brazil engages in fair trade, but we believe that the United States should move quickly to cement the terms of our commercial relations through the accelerated negotiation of the Free Trade Era of the Americas.

The United States does not have a trade agreement that ensures preferential access for United States exports in good times and in bad with Brazil, as we do with Mexico through the NAFTA. When Mexico went through a similar devaluation in 1995, our trading preferences were protected by NAFTA. As Mexico's GDP plunged 8 percent, the United States actually gained market share vis-a-vis European and Asian competitors. During these tough times, U.S. market share increased from 70 to 75 percent and our exports only decreased 8.9 percent, while the exports of European and Asian competitors fell 20 percent.

Second, the negotiation of a bilateral investment treaty and a bilateral tax treaty with the United States. These treaties would reinforce investor competence in Brazil by ensuring full protection for United States investments and eliminating double taxation of United States companies doing business in Brazil respectively.

Third, aggressive movement in Brazil's privatization program. Particularly we would like to see the opening of the Brazilian reinsurance market, as well as improved tax treatment, concession rules and foreign exchange rules for private investors in the Brazilian petroleum section.

Last, broad-based tax reforms in Brazil that would lower Brazil's excessive tax burden on business and create an environment conducive to economic growth.

I would like to thank the Chair and the Members of the Subcommittee for the opportunity to share my thoughts, and welcome any questions.

Mr. MANZULLO. Thank you, Mr. Smith.

Mr. Sandler.

STATEMENT OF GILBERT LEE SANDLER, ESQ., SANDLER, TRAVIS, AND ROSENBERG

Mr. SANDLER. Thank you very much. I too wish to thank the Committee for giving me the opportunity to appear today. I thank you for the opportunity to appear last today, because you have given me the opportunity to listen to the other speakers and change my remarks so many times that I really don't know what I am going to say right now.

This is a remarkable process and a very important issue for this Committee to be taking up, and I appreciate having an opportunity to contribute to your deliberations. I too am from South Florida, and I certainly subscribe to the comments of Mr. Konfino about the importance of this issue there, and I also agree with what Mr. Weintraub has said about we are something of a special case.

In my written remarks I emphasize that this is a local economic issue for us, not simply an international issue. Whatever the figures are you are looking at in terms of the United States-Brazil trade, I doubt very seriously that they take into account the major sales by the retail establishments in downtown Miami to the Brazilian tourists that are regularly down there, and we can see already that there is a diminution already in the tourism figures, in the cargo figures. We have already seen the impact of the problems in the world and particularly in Brazil.

We would subscribe certainly to the Committee doing all that it can with respect to encouraging the lowering of interest rates, the impact of the IMF moving forward with its funding processes, the lowering of tariffs and the continued growth of Mercosur, as a part of making certain that the problems in Brazil are not visited on all of our trading partners and that we are building the strength of the economies of Latin America.

I would also subscribe to Mr. Smith's comments that we can't measure the importance of Brazil to this country strictly based upon the trade figures from the past. That is the opportunities of the future. It is the growth and strength of that country, the size of that marketplace.

What struck me in preparing the testimony today, in talking to my clients and to others about the Brazil marketplace, there was, despite all of the rhetoric about the crisis, all the problems that we know are real, there is a continued and important optimism about trade in the long term, about investment in the long term. We need to encourage that and get over this hurdle as quickly as possible.

My background is not that of an economist. My background is that of a trade lawyer. I have represented historically U.S. companies involved with customs and other types of regulations affecting their imports. Over time that practice has changed because business has changed. The customs managers have become not import managers, they become global customs managers. The rules that govern trade, that regulate trade have been harmonized and globalized, and the lessons that we have learned in the United States are lessons which need to be learned throughout the country.

The issue that I would like to address and make sure that the message is heard here is that as we work on the macro issues of the economic problems in Brazil and throughout Latin America, it is most important that we not lose sight of the not-so-macro issues about the day-to-day regulation of trade and how it impacts upon businesses. As you stabilize the economy, as the problems are dealt with in Brazil, we can't restore them to a situation in which we continue the problems that were visited upon trade prior to the crisis and during the crisis.

Think about some of these examples. So much is talked about in terms of the finance situation and the finance rules that require advanced payments in Brazil. At the same time that the payments are required in advance, the cargo doesn't get released for 2 to 4 months—2 to 4 weeks very, very typically, instead of having the quick release of cargo that is so important to capital movement of goods or to the consumer products that move into commerce.

We have got to be able to streamline those processes. The customs valuation code adopted in Brazil should conform to Article 13 of the customs valuation code in the GATT which provides for quick release through customs, bonds or other types of processes. It is a very important to not just lower the tariffs but to lower those barriers. If licensing and labeling requirements are to be adopted, they have to be done in a transparent fashion so that traders on both sides of the transaction can prepare for them, can anticipate them, and can comply with them.

Meaningful and appropriate trade issues need to be those that people can anticipate and comply with, and that has been an historic problem not just with Brazil but certainly with others of our trading partners. We need to attack those. The FTAA process has been slowed by a variety of issues, including lack of Fast Track and what have you, but the negotiators have focused upon trying to smooth the regulation of trade by year end and identifying the problems that affect businesses on a day-to-day basis.

We would encourage this Committee to make certain that Brazil is at the table discussing those issues and trying to create systems that are streamlined, efficient, serve the needs of the countries, but also make trade legitimate, possible, effective, efficient, and economic. Thank you very much.

Mr. MANZULLO. Thank you very much. What an interesting panel. All the various perspectives. Mr. Sherman.

Mr. SHERMAN. Thank you, Mr. Chairman. Brazil has always been called a country that has a great future and always will have a great future. You can find articles on Brazil from every decade predicting that it will have a rush to First World status and world prominence just 5, 10 years down the road, and now there are a lot of reasons to be optimistic about Brazil. It is a vibrant society and a country with a lot of natural resources.

I wonder if one or two members of the panel can comment on what you think Brazil is going to look like 5 or 10 years down the road. Is this a correction or is this a depression, to use market terms?

Mr. DA CUNHA. You want me to go first? I will take a stab at that. I think that presently, although there are many international issues dealing and impinging on Brazil, and certainly it has made huge strides to belong to the global economic sphere, the problems that Brazil faces now are really domestic issues. You are right: It has been, I think, a disappointing history of promises.

My sense is that if there is any way this vacillation and wavering in the determination to implement this stabilization program—it is almost inevitable, given the structure of the debt and the fact that I don't think there is a danger of that repudiation or default.

Brazil has had six stabilization programs since the early 80's. In all of them the financial system has been spared, not only spared, it grew in strength, so I don't think that is the issue. The danger would be the return of indexation and with indexation the return of high inflation, and after high inflation the inherent instability in that system, and therefore the need in another 18 to 22 months to do another sort of miraculous type of program, which at that point

I think will be some sort of a convertibility program, since monetary policy will clearly have become discredited completely.

Mr. SHERMAN. It is clear that your profession and mine have a history of—I am a lawyer by training—have a history of being paid by the word. Bottom line, is Brazil going to be in better shape? And I realize there is a substantial risk for error here and you may have just been getting to this, in which case I apologize for interrupting. But is Brazil going to be renewing its promise and its upward trend 5 or 10 years from now, assuming, as you predict, they may stick with reasonable economic policies?

Mr. DA CUNHA. I think that if there are reasonable economic policies, the outlook for growth in Brazil continues to be very positive.

Mr. SHERMAN. Of the panel members here who either manage money or who advise people who do, how many of you are anticipating putting your own money or your clients' or your investors' money into Brazil, additional investments in the next 6 months?

Mr. KONFINO. As a bank that finances trade with Brazil, we certainly expect to continue to do that and to do a lot more of it. I think your comment about Brazil being a country of the future and the future never comes is beginning to change. I think the future is beginning to come.

Brazil today looks very much different than it did a decade ago, and I think 5 years from now it will look even stronger. I do think that this is a correction. It may be a major correction. I don't see it being a major depression.

Mr. SHERMAN. Your bank will do a letter of credit on goods that are on the way, but how about some financing for a new power plant, nice 20-year payout? Your bank ready to make those loans?

Mr. KONFINO. We wouldn't. Not even if Brazil looked a lot better would we do that. Our strategy is to finance trade. Our role as a regional bank is to help our exporters export their goods, so we wouldn't do that regardless of the situation.

Mr. WEINTRAUB. May I jump in? You asked two questions. First you asked 5 to 10 years out. Then you shifted that to 6 months out.

Mr. SHERMAN. No, no, no. I am still 5 to 10 years out. The gentleman next to you finances trade. I am looking for long-term investment.

Mr. WEINTRAUB. If I could stick to the 5, 10 years out, I think the probabilities are very high, about 90 percent or so, that Brazil will recover. The crisis is going to be rough, going to hurt a lot of people, but it is a country of tremendous industrial base, well-trained people, unfortunately a very unequal society and that is one of the things they must deal with.

But United States investors, if you look at what they have been doing, they have been putting tremendous amounts of money into Brazil. There may be a pause. That is why I am a little nervous about 5, 6 months, but I doubt whether the pause is going to be that long. It is a guess anyhow.

Mr. SHERMAN. Mr. Smith, you have my 401K in your hands.

Mr. SMITH. Well, I think that, as I mentioned in my remarks, that the investments that are being made, and those are very significant investments, are being made based on medium-term and long-term expectations. Now, this year is obviously going to be very difficult.

I don't know how many of you read the Wall Street Journal every day, but as you see, GM is going to be putting another $4 billion in Brazil. Now, they are losing tons of money right now. Why are they doing that? Because versus the United States where there is 1.3 people per car, there are nine people per car in Brazil versus the United States. Where we use 13,000 kilowatts per hour, there you are seeing about 1,300 kilowatts per hour per person in Brazil.

Now, these are things that are going to take time for it to get up to First World levels, but if you look at what has been happening ever since the Collor administration and particularly since the Cardoso administration, many of the fundamental changes that needed to take place in order for Brazil to really take off have been made. They have opened a lot of—they have really been transforming, most importantly, the public sector's participation in the economy. As we all know, government doesn't do good business.

I think that is the key in analyzing what is going to happen here within the next 5 to 10 years, is that you are going to have—you are seeing a process that is going to be difficult, it is getting to be painful at times, but it is a process that is moving forward. I think that we have already seen a lot of positive impacts and that that will continue, that we will continue to see continued United States investment in Brazil, and if I was your financial advisor, I would say go for it.

Mr. SHERMAN. Let me now ask you folks to be political advisors, if I still have time. What are the political ramifications and this is not over the next 5 or 10 years but really over the next year, what are the political ramifications of this fiscal crisis? Has there been a decline in support for President Cardoso, and is there a tangible risk to democracy continuing in Brazil?

Mr. WEINTRAUB. Let me go first because I do try to look at these things. Yes, the popularity of Cardoso has declined quite precipitously since he was reelected to the second term. It will get even worse and maybe even unrecoverable if inflation gets out of hand, because that is why he was elected in the first instance and reelected, because he defeated that.

Your third question is whether democracy is in danger. I don't think so. It is democracy that got them into trouble this last go around in that, if you know the political system, it is a little chaotic. A lot of people, each one on his own, had he controlled the legislature, for example, the way his neighbor next door Carlos Menem does, the legislation would have gone through the Congress because Menem controlled both houses. If you control both houses, it helps.

Mr. SHERMAN. The guy down the street on Pennsylvania Avenue agrees was that. But you don't see elements of the military or elements in the more conservative and money parts of society deciding that democracy got them into this problem and they need a general to lead them out of it? There isn't evidence of that problem? I see several people shaking their heads now.

Mr. WEINTRAUB. I hope these are not famous last words. No, I don't expect it to.

Mr. SHERMAN. Thank you, Mr. Chairman, and thank you for letting me ask questions first.

Mr. MANZULLO. Mr. Delahunt.

Mr. DELAHUNT. Thank you, Mr. Chairman.

I think it was Mr. Smith that indicated that—maybe it was Mr. Konfino. I forget who it was, but in any event there was a reference that—maybe it was you, Dr. Weintraub—that 90 percent of the reforms have been enacted and only 10 percent remain to be addressed.

Mr. SMITH. That was my remarks, yes.

Mr. DELAHUNT. What were the 90 percent that were enacted?

Mr. SMITH. Well, most recently there was, I think you referred to a tax, an additional tax on social security recipients and those who are receiving government pensions. There have been also a large degree of cuts that have been done on Brazilian government spending. They have significantly slashed the budget for last year and this year, I think around a third, and there is more to come.

Mr. DELAHUNT. In other words, what we have done, the Brazilian government has increased taxes and reduced spending.

Mr. SMITH. Exactly.

Mr. DELAHUNT. Much of what the U.S. Congress did back in 1983.

Mr. SMITH. From my perspective there has been a little too much of increase in taxes and we would like to see more of——

Mr. DELAHUNT. More cuts, less taxes.

Mr. SMITH. More cuts, less taxes because we think that——

Mr. DELAHUNT. I think that goes back to, maybe this was Dr. Weintraub talking about it was going to be painful. I have never had the opportunity to visit Brazil but my sense is for many, many years it has been a nation, as many Latin American countries have, of "have and have not" society. Can anyone present any information in terms of if it exists, which I presume it does, the disparity of wealth that exists in Brazil?

Mr. SMITH. Well, it is—if you look at last year, I think they do an indicator of the most unequal countries in the world and I think Brazil is No. 1.

Mr. DELAHUNT. No. 1. So the pain to put their fiscal house in order is going to be, I presume, visited on pensioners and the poor in Brazil. Am I correct, Dr. Weintraub?

Mr. WEINTRAUB. Well, let me just play a little bit with it. Your point about the inequality is accurate. Your point—you didn't call it that. Even more serious is the poverty, people who live below a reasonable line. In that sense Brazil may be the worst country in Latin America, even more so than Mexico. Those problems are deep, they are hard, they are not going to be solved the next year, over time.

Will these people suffer more from the increase in taxes and the reduction in expenditures? Possibly, but they are not pensioners, these people, so they are not the ones who are going to get some of the hit. A lot of that hit is going to go to the people who have moved up somewhat into the middle class, and they will suffer from it and they will suffer over a period of time.

Mr. DELAHUNT. Reference was made to the emerging middle class. In terms of percentage of the population, how would you define the middle class in Brazil? What percentage of the population would it be fair to state is middle class in that particular society?

Mr. DA CUNHA. You have to understand in Brazil 40 percent of the population earn less than two minimum wages. Now, two minimum wages is less than $200 a month. The richest 5 percent of the population has 30 percent of all the income. So the middle class is large, sizable in the same sense that India's middle class is sizable because the population is relatively large, but proportionately it is quite small.

Furthermore, and this is the great benefit that President Cardoso did, it is true that in Brazil the most insidious tax has always been the inflation tax. Because Brazil has developed very good mechanism of indexation, the population that has access to the banking system and so on can protect itself. It is those that do not that get the full brunt of it.

Mr. DELAHUNT. That leads me to a comment that I think Mr. Konfino made about in their most recent budget, which seemed to anticipate the crisis, with a huge expenditure for political purposes rather than exercising some sort of fiscal restraint. It appeared that in Congress there were, as you said, large amounts of money appropriated for political purposes. What political purposes?

Mr. KONFINO. Well, first of all, the states—Brazil in many ways is a federation of independent countries, and the states act in many ways very independently. The Governors of the states have tremendous autonomy and spend huge amounts and there is cronyism, there is all sorts of things that go on in Brazil. So I believe that one of Brazil's major problems is bringing that kind of expenditure under control.

Also, going back to the previous comment, I think Brazil's major problem is poverty. It is not the current problem or the economic adjustments, because those are temporary issues that can be dealt with very quickly. But for Brazil to become a first level nation, it needs to deal with its poverty, and it is an almost insurmountable problem.

Mr. DELAHUNT. I thought—and I misinterpreted your comment about huge expenditures, because I just wonder if the government there is faced with this almost intractable problem of maintaining its popular support by funding an appropriate social safety net, if you will.

Mr. KONFINO. There is some of that. The array of poor decisions in spending is very wide. It ranges from municipalities to states to the Federal Government.

Mr. DELAHUNT. Because I know I for one, we see this problem in different nations, whether it be Brazil or Haiti, and it is constantly the same problem, this need to have—to understand that these particularly emerging democracies, if you will, have to balance between dealing with their structural poverty and raising living standards at least somewhat while they go to a more free enterprise system, and it has got to be a tough call.

Again, I was unaware of the structure of the government itself. I mean, where does President Cardoso stand, where does the Federal Government stand in terms of its securing the debt obligations of these various states? I mean, I think I heard one of the precipitating causes was a refusal to pay by one of the states to the Federal Government its IOU. Has that been addressed? Has that been resolved? Dr. Weintraub.

Mr. WEINTRAUB. Not yet. That Governor is still holding out. It is the Governor of Minas Gerais, former president of the country actually. That has not been resolved. They are working on it with all the other states. That is—it is not as hard an issue, even though it causes unease, as the overall size of the government deficit that was building up, which was about 8 or 9 percent of GDP. It was getting to that level, which is—and we never had anything like that. Let me make——

Mr. DELAHUNT. I am trying to get the—why did that deficit increase? That is what I am trying to understand.

Mr. WEINTRAUB. Part of it was lack of government control. It was lack of government control over itself. I think expenditures were made very unwisely in order to buildup support for the President to get a constitutional change so that he could succeed himself as President.

Now Brazilians supported that. He is a man of considerable virtue. He may be the most or until now the most admired President in all of Latin America. In other words, he is—I don't want to leave the implication that I think he is not a constructive man who intends well. The only point I wanted to make, I don't know how any country like Brazil reduces the level of poverty in its population except by increasing growth rates year in and year out. I don't see any other solution. I think that is what he is trying to do, obviously without success this year.

Mr. DELAHUNT. But I guess it is my sense that there has to be almost a transition period of time where that poverty rate and people's expectations who find themselves on that lower rung have to in some ways be appeased, have to be met to maintain that political support that is so necessary to initiate and implement the kind of initiatives that I think we are talking about here. I mean, that is the balancing act. That is the political skill that is needed.

Mr. WEINTRAUB. I don't quarrel with that. I think that is correct. When he was reelected it was really quite remarkable. He won quite handily. He is now not popular, for reasons that are self-evident. Whether or not he can regain that popularity I think depends on how well he manages the balancing act.

Mr. DELAHUNT. How can we help him? I mean, how can the United States help in——

Mr. WEINTRAUB. I will let some of the others answer. I don't think we can very much. I will allow some of the others to answer.

Mr. DELAHUNT. Mr. Smith.

Mr. SMITH. Some of those points I mentioned before, I mean, from my perspective the only way that Brazil is going to really be able to talk about the kind of distribution of wealth that we would like to see and making Brazil a more equal society is economic growth, and economic growth is going to come through investment and it is going to come through the kind of—which has really taken off since President Cardoso has opened up many key infrastructure markets for private investment.

If you look at the trends on investment, last year we had $13 billion worth of direct investment—I am sorry—$21 billion worth of direct investment. We are probably going to look at $24 billion, even in a year like this. But if you go back a year before in 1996, you are looking at $13 billion, and the year before, 1995, you are looking at $9 billion. So you are seeing a trend as Brazil opens its economy.

Mr. DELAHUNT. You are suggesting even this year with the fiscal——

Mr. SMITH. Even this year with the problems because of the long-term prospects that I was talking about. What we can do is we can promote a more secure investment environment and a more secure trade environment.

Mr. DELAHUNT. What kind of investments are you talking about?

Mr. SMITH. I am talking about foreign direct investment. You put a factory there. You employ people.

Mr. DELAHUNT. We are not talking trade——

Mr. SMITH. I am not talking about putting hot money into Brazil. I am talking about making a brick-and-mortar investment. Those type of things I mentioned, a bilateral tax treaty, which we were very close on when President Clinton went to Brazil, but we have some problems with the tax issue. We have a bilateral investment treaty that I believe Brazil, and there may be two countries that haven't signed them in the hemisphere. Those are very important, concrete moves that we can make in this period whether some unease, to make the environment more secure for direct investment.

Mr. DELAHUNT. Talking about taxes, if I may, Mr. Chairman, in terms I understand, part of the problem was they had a very inefficient tax collection, if it existed at all in Brazil. Is that part of the 90 percent that you are referring to? Has that issue been addressed?

Mr. SMITH. No. That is an issue that is going on be addressed this year, and we are going to be working very closely with the Brazilian Congressmen to tell them exactly what sort of tax situation needs to be put together.

Mr. DELAHUNT. I am not talking about a bilateral tax treaty.

Mr. SMITH. I am not talking about that either. I am talking about putting together a tax program that allows—brings new taxpayers into the system, is——

Mr. DELAHUNT. I would just like to see those that are doing well now paying their fair share.

Mr. SMITH. Well, there is a huge informal economy in Brazil. One of the benefits of the Real Plan is they brought a lot of those people into the formal economy, which means they pay taxes. I think you will probably see this year, as the recession takes hold, a lot of those people falling out of the formal economy, so that is another problem that needs to be addressed as well.

Mr. DELAHUNT. Thank you.

Mr. MANZULLO. Could you yield a second? Stay on. I am intrigued. Informal economy, is that what you said, Mr. Smith?

Mr. SMITH. Excuse me?

Mr. MANZULLO. You said there is a huge informal economy out there?

Mr. SMITH. What I am talking about is people who don't pay taxes.

Mr. MANZULLO. All right. It is an interesting way to characterize it. When Mr. Delahunt started talking about the tax issue, it brought remembrance that just this past month as part of IMF's restructuring, that there was a tax placed upon the civil servants in Brazil for the first time.

Is this a per capita tax? Is it a penalty tax for being a member of the civil service? Is this the first time they were taxed on their income? Mr. da Cunha.

Mr. DA CUNHA. First, I mean, I think just to answer your question, but really if you want to go to some of the routes of these fiscal Federalist issues in Brazil, you have to look at the 1988 constitution which was a product of the transition from the dictatorship to the democracy, so it has a lot of peculiarities that you wouldn't find in other constitutions. Everybody knows in Brazil or the political system knows that that is an anachronism and it has to change, but it has to change in a slow process because part of that constitution was to work so that that transition could happen peacefully. So the constitution has a number of problems.

But on your specific question of the issue is the following: The issue is, the civil servants and all wage earners pay taxes, and they are the most heavily taxed because the tax is collected at source so you can't avoid that tax. The issue is that the social security, the pension system of the civil service is, as was the case in the former Soviet Union, is inordinately generous and people don't pay for their pension system. They pay very little for their pension rights. You have a 100 percent replacement on retirement and you get all of the wage benefits continued after your retirement and you make very low payments. There was an adjustment to try to make the system actuarially a little bit sounder.

Mr. DELAHUNT. Is it a contributory system, social security system?

Mr. DA CUNHA. The social security system for the civil service, there are very different levels of government. But for the Federal civil service, in the past you paid only 6 percent of your current wage for your social security retirement plus all of the other social security benefits that you have.

Mr. DELAHUNT. You say it was a 100 percent replacement. So upon retirement you would receive 100 percent of your——

Mr. DA CUNHA. Yes.

Mr. DELAHUNT. You receive your salary? It would just continue?

Mr. DA CUNHA. Plus you have the right to the la cinquenia. So even though you retire, every 5 years you are bumped up.

Mr. WEINTRAUB. If your question is whether it was a funded system, no.

Mr. DELAHUNT. That was my question.

Mr. DA CUNHA. No, it is not a funded system. Out of the general tax.

Mr. DELAHUNT. That has been addressed?

Mr. DA CUNHA. Partly.

Mr. WEINTRAUB. That is part of what the legislation——

Mr. DELAHUNT. That is part of the 90 percent.

Mr. SMITH. No, the 90 percent I referred to are measures that were stipulated in the original——

Mr. DELAHUNT. IMF.

Mr. SMITH. Exactly.

Mr. DELAHUNT. I am just sitting here and I am new to the Subcommittee, I am new to this Committee, but I have had a particular interest in Haiti during the past 2 years. My sense is that we have relationships with countries, we support international agencies such as IMF and the World Bank, etc., and yet internally their tax collection is abysmal. We find ourselves in situations where there are a variety of financial crises that are homegrown because of their system, because of their culture in terms of taxes.

I wonder if we look at it in the macro level, you know, I think it was Mr. Sherman that stated earlier Brazil always has a future. Again, you need those revenues. If I may for a moment, you need those revenues to secure the funding to deal with the pressing social issues that these nations have so that you have stability in these countries. I mean, that is just an observation, and I would be anxious to hear your response.

Mr. DA CUNHA. The revenue collection in Brazil, the problem is not the overall level of revenue collection. The taxes—current revenues last year were 24 percent of GDP, which is, you know, not a bad type. The problem is the incidence of the taxes. There are many problems in there, but the government has proposed an omnibus tax reform bill that is running through the Congress this year as part of the adjustments measures. It is, generally speaking, a good bill if it makes progress through.

Let me further correct an impression here. The deficit, the fiscal deficit is 8 percent of GDP, but the cause of that fiscal deficit, of having it increase that much, the federation, the central government actually had a primary surplus. That is, if you don't consider interest payments on the debt and you consider all the other expenditures and the revenues, there are actually—it was the size of the interest bill that increased to be 6 and a half percent of GDP.

Now, it is that which is crushing the system, and it has a lot to do with the monetary management and the adverse expectations about inflation and the process in which this debt is being rolled over. So a lot of it has to do with a capacity to really bring stability back to the macro system.

Mr. WEINTRAUB. Let me, at the risk of lecturing, be careful about Haiti and Brazil in the same breath. All of Haiti could fit in a few blocks, square blocks, of Sao Paulo in terms of what the economy is like. Brazil has by far the biggest economy in Latin America. I don't know where it fits in the world, eighth or ninth or something of that nature.

If you went and saw the industrial structure outside of Sao Paulo, it is immense. It would compare with the most industrious countries around the world. It is a major player throughout the hemisphere. It is the most important player in South America, and this is the reason people are nervous about it.

I share the point that was just made earlier. They collect as much in taxes as we do here, but they don't collect them quite as efficiently. How the law is, no one is equally collected, either.

But anyhow, in other words, I think you have to be careful. This President, a lot of the measures he took didn't need legislation. They were administrative measures in cutting back on expenditures, and he was able to take them and he took most of them. The IMF program that gets developed, now I don't know what it will be but it is going to focus on the primary surplus, that is, the surplus before you count interest payments.

Mr. MANZULLO. If I could take one of your questions and turn it on its head, is there too much social spending going on, and therefore an inability to meet those obligations with the type of tax that the people are willing to pay? I hear about this great pension system. That sounds pretty good, but with inflation the way it is——

Mr. DELAHUNT. What you and I got.

Mr. MANZULLO. That got eliminated in 1980, Bill. But anybody—the payment of a pension plan that is not being funded——

Mr. DA CUNHA. If I may say, sir, there is definitely not too much social spending. The problem is not social spending, it is where it is spent. The social spending is going to a—it is difficult to speak it that way, but a relatively privileged wage class.

Mr. MANZULLO. Including the pensions.

Mr. DA CUNHA. Primarily in the public sector and in a small segment of the wage-earning private economy, but huge segments of the society don't have any sort of a social safety net, and they don't get much support from the government, except through the provision of some basic services which have increased in their supply very significantly under the Cardoso administration, like basic education and health and so on. But there is a problem in the allocation of social spending.

Mr. DELAHUNT. Thank you for clarifying that issue. I think we lapse into this problem frequently because I think your reference to Social Security immediately conjures up in our own mind, our own simple minds, a social security system that is national in scope. But I thank you for that clarification.

Mr. MANZULLO. I have a couple of questions here. Let's say for every 100 people you have 50 kids who are not of the age where they work and 50 adults that are eligible to be in the work force. That is a rather crude model. Of those 50 adults that are eligible to be in the work force and are in fact—first of all, how many of those are actually working?

Mr. KONFINO. Probably all of them are working but maybe an underground economy. They may all be working but very few are paying taxes.

Mr. MANZULLO. OK. Of that 50, how many would receive this full pension?

Mr. DA CUNHA. I mean, first of all, the underground economy is large but I wouldn't say is actually that large, because Brazil still has a relatively important rural sector and that rural sector is not—by definition is not in the same labor legislation as the urban proletariat is, as the historical system developed in Brazil.

If you look at the urban system, I would say that of the share of employment in a city like Sao Paulo, the share of employment that is not covered by the labor laws, which is the law of two-thirds are employed by the private sector—by the public sector, would be something like 40 percent of the total employment.

Mr. MANZULLO. So that——

Mr. DA CUNHA. And they wouldn't therefore have the rights to the social security legislation.

Mr. MANZULLO. That answered my question. So 40 percent of the 50 adults who are working have no pension plan aside from what they store in their underground economy, and who knows what goes on there.

Mr. DA CUNHA. Or unless their sons or daughters provide for them.

Mr. MANZULLO. Did you want to followup on that?

Mr. DELAHUNT. I would just like to, you know, I think it was Dr. Weintraub that said that, you know, our relationship with Mexico in dollar terms is $80 billion; with Brazil it was $15 billion. was that——

Mr. WEINTRAUB. The U.S. merchandise exports.

Mr. DELAHUNT. You know, I—I mean, clearly it doesn't directly affect the United States nationally. Clearly in local terms—and southern Florida is, you know, obviously very dear to those of us in the Boston area since we like to go there in February. Today many of my constituents are flying down, leaving a blizzard, going to Miami, I hope. So we do understand and respect the concern that Floridians have about that impact.

But I think, Dr. Weintraub, it goes back to the question Mr. Sherman posed about the political stability issue. I am concerned, and just before coming down I read a report by CRS on the relationship with Argentina, Paraguay, the Mercosur, and the strain that the crisis in Brazil is putting on their economies in terms of their trading relationships.

I don't know how you evaluate—let me put it this way: Does anyone on the panel have concern about what is occurring in the neighboring countries, in those three countries? Because one can imagine in a worst case scenario this problem becoming the Latin American problem, and again, given the social and political history of that continent, it has only been 10 years—in a historical timeframe that is a very short period of time—when Brazil had a dictatorship. These are all emerging, not just emerging economies, they have had very little experience with democracy.

I think that is the point that, you know, our colleague Mr. Sherman was talking about, is this whole social and political instability brought about by return to hyperinflation and things we talked about and, you know, and I welcome any comments, particularly on those other three nations. What is happening in Argentina, for example, and Paraguay?

Mr. WEINTRAUB. Let me make a brief comment. I share the concerns, you know, that you are mentioning. The country that is most likely to be hit hardest is Argentina. Argentina has gone through—I don't know how much you followed it—quite a remarkable economic performance in recent years. They brought runaway inflation down to close to zero. They had a convertibility plan in which each peso equals one dollar, all of that supported, which means they really can't appreciate their currency because if they do, that whole convertibility plan, everything that made the current government popular would go to hell.

They rely tremendously—about a third of their exports go to Brazil. So Argentina has to go through this difficult period when there is a collapse in their main market plus the shift of the exchange rate relationships. Yet, I don't think it is going to put Argentine democracy under tremendous strain. You may get a lot of social unrest and people complaining and more strikes and more problems dealing with the daily problems, but I don't think Argentina, for example, is ready to go back to the military dictatorship that they had earlier.

I would be less confident of countries like Paraguay, a smaller one, and I am pretty certain that Uruguay, which the other members of—the impact of the Brazilian decline on the economies of most of the other countries is much harder to assess. I don't have a good assessment, and I welcome something from people who do.

In the case of Mexico, their exchange rate has actually depreciated since this whole thing started. Mexico has a floating system and their exchange rate fluctuates, but not all that much, and it is under control mainly because Mexico's economic policies are quite strong.

In other words, my own instincts are that even though it is short, in most of the countries, not all of them, the idea of returning to the kind of military or other dictatorships is not unthinkable but would be—is unlikely in most of them. I would welcome comments from the others.

Mr. KONFINO. I agree with that assessment. I think the military in most of Latin America is probably in the barracks for good. A couple of exceptions: Venezuela is of concern these days, possibly places like Paraguay.

But I think Brazil's importance to the region needs to be looked at on a couple of levels. As far as trade with neighboring countries, I agree Argentina would be most negatively impacted. It doesn't rule out Peru, for instance, or Ecuador, but the impact of problems in Brazil regardless of the amount of direct trade are going to be great on the region.

There is a psychological impact. We have seen how problems in Malaysia and Indonesia have impacted Brazil. The "tequila effect" of 1994 when Mexico had a problem, it caused a huge amount of capital to leave Argentina, which was the other end of Latin America. So I think Brazil can have a very negative psychological impact on investments in Latin America, on trade finance, a whole range of things.

Mr. SMITH. If I may, I just wanted to comment on the statement that Brazil is only very important for certain regional economies. If you look at 1997 exports, the United States exported as much or more to Brazil, it exported more to Brazil than it did to France. Now, I don't think any of us up here would be saying that France is insignificant to the United States economy. So I just—that, I think, puts it in perspective there.

Now, there has been some negative growth in the last quarter so Brazil has slipped a little bit, but we—even in 1998 where you had two consecutive quarters of falling growth, I mean, Brazil is really still in that league. So I would caution you in terms of trying to look at the impact of Brazilian's economic problems in just places like Florida. Because if you look at the major exporters, the major exporting States, you know, Brazil ranks in the top 10 in a whole lot of them.

Mr. DELAHUNT. I think I was picking up on a statement by Mr. Weintraub when he was comparing Mexico to——

Mr. SMITH. Right. Mexico is the second largest trading partner. In terms of democracy, there is a situation in which the leftist candidate was in the lead and was beating the President during the first election and almost in the beginning of the second election. So what that shows is that those elements that don't necessarily share the government's perspective on things are included in the political system, so that they don't need to go outside of the system to promote the kind of change that you would talk about.

Now, if there is going to be significant political and significant economic impact on lower-income Brazilians that don't necessarily—aren't necessarily represented by Cardoso, you may see some other candidates come up and through the democratic system assume power. But I think we are pretty safe in saying that the democratic system is a system through which that sort of change would take place.

Mr. DELAHUNT. I think that is a—I think you are on the mark. These are growing pains politically in terms of democratic institutions, as well as they are being tested by adversity in the economy.

Mr. MANZULLO. Bill, if I may, I want to ask a couple of questions. I really appreciate your questioning. You asked most of my questions and I didn't want to stop the continuous drive. I appreciate those questions. I also appreciate the answers.

I represent a city in Illinois, the 16th District, which is one of the most exporting congressional districts in the Nation, heavy in machine tools, and things aren't good in exports. The machine tool industry domestically is off by about 10 percent. That is not good either, because what happened in 1981 was the first sector to dry up domestically and internationally with machine tools.

Rockford, Illinois, led the Nation in unemployment at 26 percent. We lost a hundred factories in a town of under 140,000 people, 10,000 highly skilled jobs, and the machine tool industry was the last to recover, first to fall behind and the last to recover, and we are very much concerned about that. In fact, we have—in the past 4 weeks we have lost four companies. People can crow all they want about the economy in the United States. I see some real hemorrhaging taking place.

I noticed—Mark, I want to ask you this question—your paper states that Illinois is the eighth or ninth largest exporter to Brazil; is that correct?

Mr. SMITH. Yes.

Mr. MANZULLO. It is at the bottom of your first page. The total amount of exports from the United States to Brazil is about $15 billion; is that correct?

Mr. SMITH. Right. If you look at Illinois in 1997, they account for basically around $1.1 billion.

Mr. MANZULLO. That is about 20,000 jobs.

Mr. SMITH. If you take $1 billion equals 20,000 jobs, which is sort of the equation that has been thrown around, it is quite significant.

Mr. MANZULLO. What is happening in Brazil is directly impacting Illinois?

Mr. SMITH. Oh, yes. If you look at where Illinois's exports to Brazil were in 1993, you are talking a good $295 million versus $1.1 billion that we are talking about in 1997, so Brazil is a whole lot more important. That is 262 percent growth, OK. So Brazil has over these 4 years become increasingly important to the economic well-being of your constituents.

Mr. MANZULLO. Mr. Smith, would I be correct in saying that a significant amount of that $1.1 billion would be in the area of machines and machine tools?

Mr. SMITH. As I mentioned before, 70 percent of Brazilian imports of capital equipment are going into the kind of—when you establish a factory, obviously you need a lot of machine tools, etc. So I would say that that would be a significant portion of those capital equipment imports.

Mr. MANZULLO. The frustration is, what do you do? We have economists, we have the people here representing American companies doing business in Brazil. Is that what your company does, Mark?

Mr. SMITH. We represent the largest United States companies invested in Brazil.

Mr. MANZULLO. Mr. Sandler, you are on the legal end with regard to the duties, etc. How do you fashion—watch this question—how do you fashion a common sense remedy that doesn't have so many holes in it? This is your opportunity for creativity. We are very much concerned because we pump all this money in, IMF money into it to stabilize the currency, and then we find out that you don't want to pay taxes, just don't pay taxes, do it underground. That is U.S. dollars that are guaranteeing those IMF loans. Anybody?

Mr. KONFINO. It is very difficult to answer. I don't know that there is one.

Mr. MANZULLO. I knew it would be.

Mr. KONFINO. First I would say that the billion dollars in Illinois that you refer to, it is probably a much higher number. There is a magnifier effect, if you will, because exports to other countries are suffering. I know that in our bank, and I am sure many of my colleagues that I have talked to have cut back on the amount of credit they provide to United States exporters because of fears of what is going on in Brazil and fears that the problems of Brazil will contaminate other countries. So the real effect on your constituencies is much greater than the $1 billion in Brazil. That is why I think Brazil is very, very important beyond the $15 billion that is exported.

The second part, I don't know that there is anything that we can really do from a standpoint of aid or—I think the solution lies in expertise and moral support. I think we need to lend our expertise in areas where it can help, where—you know, in tax collection, tax reform, you know, and a whole range of other areas where we have got the benefit of several centuries of experience and Brazil is just now beginning to tackle those issues, only really in the last 10 or 15 years.

I also think we should work very closely with international multilateral agencies to perhaps cushion the blow of the reforms that Brazil needs to take, because the impact on the lower segments of the population is going to be severe. The people most hurt will be the emerging middle class, which will revert back to poverty, and the very poor people. So my answer is, I think it is moral support and expertise in any way we can.

Mr. MANZULLO. How do you lend moral support to a country?

Mr. KONFINO. By moral support, I mean working in international forums to help Brazil work its way out of the crisis. I don't advocate increasing aid or pumping taxpayer money into Brazil or any other country.

Mr. MANZULLO. Patience?

Mr. KONFINO. Patience and working—let's share the burden with other countries, and let's spread the tax burden not only on our people but some of the other contributors to the IMF and the World Bank and so on.

Mr. MANZULLO. Anybody else want to take a stab at that? Mr. Smith.

Mr. SMITH. I think if you look at what is going to be necessary for Brazil to really get out of this funk, it is going to be—first of all, there is going to need to be in terms of international lenders some—there is going to need to be some flexibility. Without access to financing, it is going to be really, really tough for Brazil to get out of this crisis, and to the degree that the international financial community can extend loans or put longer financing terms, those sort of things, can respond in that manner, that is going to be very, very helpful in terms of allowing Brazilian companies to finance the improvements or exports, etc., that they would need to grow.

I would also say that, as I mentioned, the direct investment is going to be very, very key, and the measures that I mentioned in terms of a bilateral tax treaty and a bilateral investment treaty are key components that investors look at when they are evaluating when to make an investment decision, and we are really not that far off on those two measures. I think that given a concerted effort, we could certainly make those two things happen.

Third, if you look at—you mentioned your district, and it is very well put. This is the current situation. This is without Brazil moving its tariffs at all. Brazil's WTO tariff buyings are around 40 percent. Brazil's current tariffs are around 12.5 percent. Now, if the crisis gets any worse, what are we going to be left with? What are Brazil's options going to be?

Now, you can imagine the scenario where—and we don't think that this is going to happen, but imagine if things do get really, really bad and Brazil is forced to raise those tariffs. Your constituents in your district are going to be hurt a whole lot more. We think the Free Trade Era of the Americas and the Fast Track negotiating authority necessary to really make that thing happen is the key thing that you can really do to ensure that your constituents aren't hurt any further.

Those are very concrete measures that you can take right now. They are not pie-in-the-sky type things and, you know, if we really put some force behind this, we can make this happen.

Mr. MANZULLO. I like that answer also. Doctor.

Mr. WEINTRAUB. Let me make a few comments. Let me just make a few comments. What we are really talking about is what are the short-term measures—short-term is now the next 6 months—that Brazil can take to get out of its current problems? Assuming they do that, then some of the longer term issues of investment and trade and growth can resume.

The IMF program which is still under negotiation is designed in part to help Brazil reach that point, and if the IMF money is never that great for all of the needs, it is intended to be a catalyst to get money from some of the other investors in the banks and the investment banks. The World Bank comes in and supports under those conditions, as does the Inter-American Development Bank. That is the game going on now.

Earlier when I was asked what I thought the United States could do and I said "not much," it is really that I don't mean—what I meant by it is not that the multilateral institutions which we contribute to do nothing, but I don't think there is really—it would be wise for the U.S. Congress to suddenly appropriate money to send out to Brazil to correct a problem that was mostly made in Brazil.

Now, it was complicated by a lot of other factors, the ease with which capital could move. Once Brazil was in trouble and investors and people who manage money felt uneasy, they acted rationally and they got as much out as they could, and to kind of protect their exchange rate. They lost about $45 billion over a period of about 4 or 6 months. They made some big errors.

I guess the reason I find it hard to answer your question is there is no one easy answer as to what should be done about these things. Mr. da Cunha said Brazil should move to a currency board. I think the best exchange rate for them is a flexible exchange rate, free-floating, more or less. There are disagreements among experts as to what the percentage of measure should be, but the ones who are going to determine those measures are the Brazilians. We are going to provide some advice as to how it should be done, but my own instinct tells me if the program that gets put together now is coherent and the Brazilians can meet the necessary measures that make the short-term program effective, we will get out of this issue. We will get out of it within 6 months to a year, I think. But to expect anything more rapid than that, I think is unwise.

Mr. MANZULLO. Quickly, I have got to adjourn this at 4 and go to another hearing. Go ahead, please.

Mr. DA CUNHA. I just wanted to clarify something and then make another point. I don't advocate a currency board right now. In fact, I would advocate a currency board if the current program or the program that will be announced doesn't work.

I actually don't think that the problem is that difficult from a purely macroeconomic sense. If the right set of policies are pursued, and I believe that the right set of policies, I think that the current economic team is quite capable and will try to put them in place, what I see as a danger is that there will be impatience with the time it takes for that process to work through.

Brazil has suffered from a long period of very high inflation that distorted many aspects of the economy that take a long time to be corrected. I believe that because most of the problem today is adverse expectations, the kind of orthodox monetary program that I think will be put in place should work reasonably well, but it cannot be expected to work that fast.

Moreover, I think that the recession that the country is in right now was in a way the product of a separate set of issues which had to do with the fact that foreign capital, because there was a shock post-Russia and etc., stopped flowing in. The model in Brazil since the 1990's was that you funded investment abroad, and that model is now under threat because of changes in the perception of risk in the general international market.

There are issues here, but I think that if there is enough political leadership right now, it is a domestic problem and it could be resolved. What can the United States do? I agree with the proposals that were made here. Trade, as we have seen in Mexico's case, trade is really a natant of growth, and if we can stimulate trade, that will only help the Brazilian economy now and in the future.

I also believe that if the multinational institutions like the World Bank, IDB and others can help with putting in place a minimum safety net, that would make things easier, because it is quite clear that there isn't much of one there right now. I believe it is a domestic problem.

Mr. MANZULLO. Mr. Sandler, did you want to comment on that? You don't have to.

Mr. SANDLER. No, I hesitate to comment on the economic issues in which I am not an expert. I can tell you that in talking to folks, it is clear to me that we are dealing primarily with a domestic policy issue, and I agree that there is precious little that the U.S. Congress can do to intrude on that. In fact, the efforts to intrude may have the exact opposite impact of anything that we imagine would be the right way to go.

Working through our multinational institutions is certainly a sensible thing. The concept of making it an environment that makes sense for trade and makes it a secure trade environment, the types of agreements Mr. Smith was talking about make sense. Building Mercosur, because that stabilizes the marketplace so that we are not just focused on Brazil, but Brazil becomes a platform for trade throughout that region and stabilizes the growth, creates the opportunities for investment and for the export of the machine tools that you are talking about, because it is a larger, more stabilized market and there is more flexibility in that market, whether it is Brazilian exports to Argentina or Argentine exports going back into Brazil. But you have more flexibility as Mercosur has grown and stabilized there as well.

I think that is another area where we can foster that growth, and the other is the theme I talked about earlier, which is to make sure Brazil is at the table talking to us and others about what these trade regimes are and making some sense out of them, whether it is through the FTA process or civil society process of trying to build some efficiencies in trade that don't exist today in this hemisphere, participating with U.S. Customs about trying to harmonize systems and globalize systems so that there is some communication and good training and so that there is predictability. That is the type of environment that allows businesses to thrive and to take advantage of the marketplaces and to make the decision to trade there, to invest there.

Mr. MANZULLO. I want to take this opportunity to thank you. Bill and I have had a great opportunity to ask a lot of questions and get a tremendous amount of answers and input into it. I really want to thank you for coming. As I see it, the fact that this Congress has been unable to pass Fast Track is just another lost opportunity for us to export more items, and I guess I have a very selfish motive in wanting to see these treaties entered into because of what happened to my hometown back in 1981.

Mr. Delahunt, thank you for coming. This Subcommittee is adjourned.

[Whereupon, at 4 p.m., the Subcommittee was adjourned.]

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