Toward an Era of Hemispheric Cooperation

Chilean Finance Minister Alejandro Foxley and former U.S. International Trade Commission Chairwoman Paula Stern consider the prospects for Chile-United States Free Trade.

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INTRODUCTION

In the thirty years since President Kennedy announced the Alliance for Progress, no U.S. initiative has generated more interest and excitement in Latin America than President Bush’s June 1990 proposal for a Western Hemisphere Free Trade system that would eliminate barriers to commerce among all the countries of the Americas.

The timing was impeccable. Latin America was struggling to emerge from its debt-induced depression of the past decade. Most countries were restructuring their economies along market-oriented lines, abandoning inward-oriented development strategies, and betting their future on trade and foreign investment. The United States, far and away the region’s largest market and its main source of external investment was critical to their plans: U.S. consumers absorbed more than one-half of Latin America’s exports in 1990, and upwards of one-third of the region’s export growth in the 1980s was accounted for by increased sales to the United States. Washington’s call for hemispheric free trade reassured an anxious Latin America that the United States was not about to turn away from the region in a post-Cold War world.

The North American Free Trade Agreement (NAFTA)—among the United States, Mexico, and Canada—is the starting point for hemisphere-wide free trade. There are virtually no prospects that the United States will enter into free trade arrangements with other Latin American countries if it does not do so first with Mexico, its closest neighbor and overwhelmingly its leading trading partner in the region. Although there remains considerable uncertainty about when—and even whether—it will be ratified, the NAFTA pact has been signed and is likely to be presented for approval to the legislatures of all three signature countries later this year. The United States, however, has not put forth any strategy for pursuing free trade beyond Mexico and Canada, aside from identifying Chile as the next country in line for an agreement. And there are good reasons for singling out that country.

Chile is Latin America’s star economic performer. Over the past five years its economy has expanded by an average of some seven percent, with last year’s growth a full ten percent. Inflation is nearing single digits; unemployment has declined to less than five percent; exports are booming; and foreign investment is rolling in. Moreover, this economic dynamism has, since 1990, been accompanied by the successful restoration of democratic rule.

But before the United States moves beyond NAFTA toward free trade with Chile or any other Latin American country, there are many important questions that need to be addressed. Should, for example, Chile and other countries be incorporated into an expanding NAFTA or should the United States seek bilateral trade agreements? Should free trade arrangements be limited to Western Hemisphere nations, or should the United States (and Latin American countries as well) pursue such arrangements with extra-hemispheric nations? What has to be done to insure that the pursuit of hemispheric free-trade pacts does not conflict with the building of an open global-trading system?

The Brookings Institution and the Inter-American Dialogue invited Alejandro Foxley, Chile’s Finance Minister and former Chairman of the International Development Committee of the IMF and World Bank, and Paula Stern, former Chairwoman of the U.S. International Trade Commission, to explore these and related issues with an audience of U.S. government officials, business leaders, senior staff of international agencies, and leading policy analysts. As a contribution to the public debate, we are pleased to present the proceedings of what turned out to be an unusually frank and wide-ranging discussion of the economic choices facing the United States and the nations of Latin America.

Nora Lustig
Brookings Institution

Peter Hakim
Inter-American Dialogue
Toward a New Era of Hemispheric Cooperation

Alejandro Foxley, *Minister of Finance, Chile*
Paula Stern, *President, The Stern Group*
*formerly Chairwoman, U.S. International Trade Commission*

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René Cortázar, Minister of Labor, Chile, Alejandro Foxley, Minister of Finance, Chile, and Patricio Silva, Chilean Ambassador to the United States.
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TOWARD A NEW ERA
OF HEMISPHERIC COOPERATION

Alejandro Foxley
Finance Minister, Chile

With the collapse of the Soviet Union, we are entering a new world. Standing on the threshold of this new world, it is not easy to see its eventual shape. Superpower disputes are behind us. The great ideological confrontations that characterized most of this century are no longer present. In their place, we find ethnic and religious conflict, from the Balkans to the Indian subcontinent. What lies ahead is uncertain. As the recent Russian crisis shows, instability has replaced the old, although tense, stability of a bipolar world. Unpredictable change has replaced the status quo.

We can see the difficulties of change and the different directions it may take. But we also see the promise. That promise was recently put well by Pope John Paul II. “Today we are experiencing a planetary economy,” he says, “a phenomenon we must not ignore because it can create extraordinary opportunities for greater well-being.” This is the subject of my commentary today at the Inter-American Dialogue and the Brookings Institution.

We begin in Moscow, where Russian President Yeltsin faces many of the same issues Latin America confronted in the last decade—towering external debt, hyperinflation, the need to strengthen private sector development while promoting social equity, and the urgency of creating a culture of democracy.

Next week, President Clinton and President Yeltsin, meet in their first summit. At issue is not so much President Yeltsin’s survival, but the survival of a road to democracy and toward a market economy. There is much, I suggest, to be learned from the experience of Latin America, especially Chile, in the recent past.

The Latin American experience proves that the stability of its countries as well as the whole region is intimately linked to economic growth and to the social progress of its peoples. Development and democracy are legitimized and consolidated only when the majority of the society shares the benefits of growth and freely participates in public life and decision making.

Our own national experience demonstrates this. It is a point of fact that Chile’s economic achievements have been greater under the democratic system than under military rule. Chile has proven that growth with equity is not only possible under democracy, but that their combination leads to sustainable development. In fact, the Chilean economy grew by 6 percent in 1991 and by 10.4 percent in 1992. It will grow by 6 to 7 percent in 1993. During 1992, total investment expanded by 25 percent in real terms. Private sector investment grew by 29 percent. Inflation is down to 12 per-

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cent, from a high of 30 percent at the beginning of the Aylwin administration. Unemployment fluctuates around 4.5 percent, real wages are increasing at a rate between 4 to 5 percent a year and poverty levels have been sharply reduced as a result of an ambitious social program financed through tax increases.

These results have been accompanied by a very strong balance of payments, with a trade surplus and a record level of foreign exchange reserves. At the same time, during the last three years the government has consistently developed a budget surplus equivalent to 2 percent of GDP.

By the end of President Aylwin’s administration, the Chilean economy will show an average growth rate above 6 percent for the four year period that began with the restoration of democracy in 1990. At the same time, Chile has reached political stability after many years of conflict. True, we managed to achieve this after a seventeen-year interruption of a strong democratic tradition, not a seventy-year period, as in the former Soviet Union, a country that never had a strong democracy. But despite these differences between our circumstances and those of newly democratic countries of Eastern Europe and the former Soviet Union, and there are many, the fundamental fact remains that development and democracy thrive, or wither, jointly.

Our past experience shows us that nothing is more effective in allowing a country to look forward with optimism than democracy and robust economic growth. Economic stagnation and recession breed insecurity and pessimism. Peoples and countries turn inward, become defensive and disenchanted with politics and public affairs. They see the rest of the world as adversaries, always taking something away from them: jobs, factories, creative ideas. That is the reason why recession so often results in increased social conflicts, protectionism and trade wars.

Countries like Chile and several others in Latin America are enjoying substantial economic expansion after many years of debt-induced recession. We need growth in the United States, Japan, and Europe for our efforts to be consolidated—but also because we need partners with which we can share bold new initiatives for trade expansion and prosperity.

There is a timely coincidence of interests: for the first time in many years the North American dialogue and the Latin American reality coincide.

While the attention of American policymakers is rightly focused on the tremendous challenges of making democracy succeed in Russia, we must not lose sight of the opportunities present here in our hemisphere. Economic, social and political reforms undertaken by Latin American countries in the seventies and eighties have resulted in the return of democracy and growth throughout the region. There is a timely coincidence of interests: for the first time in many years the North American dialogue and the Latin American reality coincide.

A major theme of President Clinton’s speech at American University was “compete, not retreat.” Let me tell you why this is the foundation for building true hemispheric integration. The recovery of the American economy is President Clinton’s main goal and Latin America can help him achieve it. The improving situation of the region, in contrast to Western Europe and Japan,
makes the Latin American market an attractive alternative for U.S. exports.

Some statistics reveal the new reality. In 1991, half of the total imports to Latin America came from the United States. Latin America is the most dynamic market for U.S. goods and services. United States exports to Latin America have grown at a rate of 12 percent in the last five years, a figure that triples the total growth of exports of the United States to the rest of the world. This is not surprising since Latin America is the region that shows the largest propensity to import from the United States: for each percentage point of growth in GDP, Latin America imports about $5 billion from the United States. This figure compares very favorably with Japan, which only generates $1 billion of imports for each point of growth in the Japanese economy. The same is true for the rest of Asia.

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How does Latin America see its hemispheric relations today? What should be at the core of a new era of hemispheric cooperation?

Latin American democracies have chosen the path of economic modernization with a strong emphasis on social development. Full integration into world markets is a key component of these new democracies. That is why trade, not aid, is the topic that will dominate the inter-American dialogue, presently, and in the immediate future.

There is no rhetoric in hemispheric relationships or in the definition of a policy towards the region that can avoid tackling the issue of trade, not aid, up front. The countries in Latin America, and indeed their people, will be able to separate the wheat from the chaff.

Just as trade expansion and more open markets are a requisite for increased competitiveness, more growth and new jobs in the U.S. economy, so also for Latin America. Latin America is committed to multilateral trade liberalization. We are concerned with stalemate in the GATT. We observe the weakening of the international economic system that has been so patiently built since Bretton Woods. We see that the EEC incorporates new countries and develops a special relationship with the struggling middle income economies in Eastern Europe. We watch how a de facto economic integration of the dynamic Asian economies around Japan is occurring at a very fast pace. We see NAFTA as an exciting new development.

But, we ask ourselves: Where does Latin America as a region fit? Where do Venezuela, Brazil, Argentina or Chile fit? Of course, these are very important questions that have no easy answers. To be sure, Latin America is making progress in advancing towards its own economic integration, as existing sub-regional pacts and bilateral agreements show. But the progress is uneven, and the question of how to open further industrial markets is still unresolved.

The United States and Canada will have to tackle this issue. The Clinton administration has an unique opportunity to put in place a policy that coincides with its own economic interest: expanded trade opportunities with the fast-growing, open economies of Latin America. There is only a limited time for an effective hemispheric policy to be brought to life. There is a need to produce results in this area or otherwise face the frustration of another policy towards Latin America that did not bear fruit.

The vision of an expanding world economy that President Clinton has articulated needs to prove that it can succeed. For that to happen, countries in the hemisphere must take an active part in opening their markets reciprocally. The opening up of markets can also be instrumental in promoting not just any type of development in the hemisphere, but sustainable development based on mutually accepted environmental norms, on respect for worker rights, and on clear dispute resolution mechanisms.

Any hemispheric policy has to take into account the heterogeneous reality of the economies in the region. What common policy can be defined, say, for Haiti, Argentina, and Brazil? The only way not to be paralyzed by this heterogenous reality, is to assume the need to have an economic
and trade policy for the region that, while based on a common overall approach, makes room for the specific needs of the various cases. It would be wrong to try to impose an identical pattern for all situations. Free trade agreements may not be the answer in all cases, but expanded trade opportunities under various country-specific approaches might be a practical way to move forward.

Let me refer briefly to future trade relationships between Chile and the United States. We believe that the essential elements for a Free Trade Agreement between the United States and Chile are in place. The how and the when need to be determined, and we believe they will be in time. We recognize that the new administration has many demands facing it. Our purpose here is not to add to those demands, but to build a relationship of mutual trust that can lead to the fulfillment of the FTA as a shared goal.

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Regional integration will not be possible in practice until the countries complete the opening of their economies and pledge themselves to healthy commercial competition in the hemisphere. The world has seen few successful models of economic and democratic vitality emerging from adversity in this century. We can cite some of the examples from the Hispanic world. Among many examples of progress two stand out as particularly strong models of countries in transition: Spain in the seventies after Franco, and Chile in the nineties. It is important that we signal our interest and support of such experiences.

Let me point out here that this view is not unique. Last year, The Carnegie Endowment for International Peace established a blue-ribbon, bipartisan panel of foreign policy experts to come up with a blueprint for a new American foreign policy. The result was a report called _Changing our Ways, America and the New World_. The report contains an entire section on the importance of a multilateral framework to reduce trade restrictions. It says that the goal of a hemispheric free trade zone, in the context of a strong multilateral framework, is appealing. It endorsed accessions to NAFTA.

More importantly, in a section on strengthening democracy, the report affirms the broad point of my comments today. "Where democratic breakthroughs have occurred," the report states, "we should make major efforts to consolidate them... success stories in one country can boost the morale and prospects of those suffering elsewhere for freedom. Conversely, failures can embolden totalitarian and authoritarian regimes." Among the specific measures for an American strategy to promote democratization, there is one cited with which we can agree on completely: the cultivation of open markets.

From Mexico to Russia, from Central Asia to Central America, from Poland to Chile, from West to East, the trend is universal: social market economies and the consolidation of democracy. The leaders of new democracies in Russia, the newly-independent states, and Eastern Europe today face the problems that we in Latin America have already resolved.

We are part of a new—if not young—generation of finance ministers and political leaders in Latin America who are willing to meet the challenge of leveling our economies and countries against the high standards of democracy, competitive economies and sustainable development, that some of the more advanced countries exhibit today. Perhaps while travelling this road, others in the East or in the South will follow.
I’m honored to be here to comment on Minister Foxley’s remarks. I was delighted that Minister Foxley referred to a number of different associations that we have enjoyed and benefitted from together. The Carnegie report, Changing Our Ways, America and the New World, as well as some of the same statistics on the Little Rock Economic Summit on Latin America that I shared with President Clinton, were part of the important statement that was made here today. So, I see myself as a well-traveled bridge between many organizations and disciplines—both economic and political—and between different parts of the world.

Minister Foxley said that he wished to go beyond looking at the bilateral relationship to discuss hemispheric issues. I’d like to take this even one step further by going beyond hemispheric matters to the global.

I just left another audience of Asian trade experts where I was trying to address the need to go beyond the Americas and the emphasis that the Bush administration put on NAFTA, and to correct the neglect that Asians feel that the United States has demonstrated or signalled to those countries.

Bill Clinton has reaffirmed President Bush’s commitment to make Chile the next in line to accede to the NAFTA when the time comes for negotiations. I firmly believe that Chile—because of the tremendous success of its political and economic reform efforts—is rightfully an important model for development and democracy not only in the hemisphere but across the globe.

However, the need for the United States to extend its linkages to the rest of the world is also critically important. Exports are vital to Bill Clinton’s economic recovery plan. While we spend a lot of time in the press looking at Congress and the budget and tax discussions, there is a very important international economic component required. Exports have been one important source of growth in the last few years, particularly during the Bush administration. It is important to continue to improve on that performance.

Minister Foxley noted that Latin America is a key market for American exports and that it has played that role since the Latin American recovery in the 1990s. I think that this is particularly significant in light of the fact that Japan and Europe are faltering as our traditional markets. The message that I took down to Little Rock in mid-December was that this slow growth must be compensated by strong expansion in developing regions such as Latin America. And I was glad to see that Minister Foxley was using the same statistics that I did down in Arkansas. For instance, that half of each import dollar in Latin America goes for U.S. goods. Nowhere else in the world will you see the United States has that kind of advantage.

As the United States shapes its trade policy, I think it’s important that we look not only at the size of markets but also at growth, access and their propensity to purchase U.S. goods. I think that we do have a very fertile ground to plow in Latin America.
It is important, however, to forge a constructive engagement with Asia as well. Even while the United States strengthens its ties with Latin America, it cannot afford to ignore other regions. And it might not have the same propensity to purchase U.S. goods, Asia is a very large and rapidly growing market. In 1992, East Asia absorbed one-third of total U.S. exports. I believe that as debtor nations, we have to be aware of the capital in these Asian markets, which is vital not only to the United States but to all debtor nations. Therefore, I think that Asia is a critical engine of economic growth as we face the need to pull ourselves out of this world economic slump.

If you look at the American University speech of the President, and United States Trade Representative Mickey Kantor’s report to Congress, there are a few new words on Asia. There is a reality that we have to deal with in this audience: how do we link the initiatives in Latin America—that are so encouraging—with what is going on in the rest of the world?

How do we link the initiatives in Latin America—that are so encouraging—with what is going on in the rest of the world?

It is inescapable that a policy plan has to be shaped for the future. As I said, we have to meet the challenge of Bill Clinton, who has restated the U.S. intention to negotiate with Chile as the next country to accede to NAFTA. I worked very hard on that Carnegie Endowment report to emphasize the need to have NAFTA as an organic organization that will grow without distinction to geographic discrimination. I believe that this is important not only to the United States as a global leader but that it is crucial for all nations in Latin America.

Chile is a Pacific nation. One-third of Chilean trade occurs across the Pacific just as is the case with U.S. trade. So, I think it is consistent for the United States to think about bringing an Asian nation—perhaps Singapore—as a free trade partner in tandem with Chile. The United States can pursue these efforts concurrently.

I believe that we need to pursue this kind of strategy because, already in Asia, we are hearing important voices who would like to see NAFTA stopped at three nations and not grow any further. I gave a speech a couple of weeks ago to the eminent persons group of the Asian Pacific Economic Council in Singapore. At that meeting opposition emerged to Western Hemisphere regionalism and the potential restriction of NAFTA accession to any other Latin American nations. If that opposition gels, which I think is very possible, there’s an explicit threat to Chile’s own chances of acceding to NAFTA. Such an occurrence complicates President Clinton’s intentions to enter into negotiations with Chile.

Thus we all must act globally—in our own self-interest—taking into account the importance of both Latin America and Asia. Perhaps the best way to defuse the tensions and allay the fears of the Asian region is by linking NAFTA to Asia by adding an Asian nation at the same time that we add Chile. In addition, I think that the Asian Pacific Economic Council, which is an important group and one that has a wide membership, should soon consider Chile’s interest in joining that group.

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This has been a kind of realpolitik approach that can be effective for the world’s industrialized nations with interests and influence in all regions of the world. This approach is also compatible with President Clinton’s expressed interest in negotiating with Chile next. We are all interested in expanding trade and I think that we need to have in place—as a mature, leading economy of the world—strategies that are positive and “win-win” for all. And I think that what I have spelled out is consistent with that goal.

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**DISCUSSION**

Lincoln Gordon, Brookings Institution: Minister Foxley, you spoke a lot of the connection between democracy and development. I'm troubled by the notion that democracy should be considered either as a necessary or as a sufficient condition for growth. How in this specific framework, do you regard the experience over the last ten-twenty years of such nations as Korea, Singapore, Taiwan and, of course now, China?

ALEJANDRO FOXLEY: When I say that democracy and development go together, I am not suggesting that authoritarian regimes cannot produce growth. They can. The record is there. But I wonder what happens if you take the question in the long term and look for instance at a seventy-year span. I would venture a hypothesis that democracy is needed as a condition for sustained economic growth. The hypothesis can be looked at in terms of the U.S.S.R. and the European experience. You find a lot of food for thought there.

Nora Lustig, Brookings Institution: I have two related questions. First, how would Chile react if NAFTA were not ratified? Second, NAFTA has an accession clause. But is NAFTA the right framework for Chile? Is NAFTA the agreement that Chile wants to accede to?

FOXLEY: Chile has been very supportive of NAFTA. It's the kind of enlightened policy that is mutually beneficial, aimed at growth, and compatible with multilateral trade liberalization. It's the direction in which we would like to see many other countries go.

In terms of the second question, it is too early to tell. No one knows what will come out of the supplementary agreements on the environment and labor. But, I am basically optimistic. I think that NAFTA will be approved in Congress and I am fairly certain that the labor and environmental consensus that will emerge will be consistent with free trade.

PAULA STERN: I also think that we need to see the side agreements to understand the whole package. We need to continue to insist on closer and deeper integration and a quid pro quo for access. Let's go beyond the things that are in the GATT. I think it is defensible and I think that it is right to go beyond just trade policy. We are in an experiment right now. We are intensifying relationships. We will have to see where NAFTA comes out to see if it serves as a model. But I think that the Bush Administration should be congratulated for pushing this trade initiative and the Clinton Administration is very clear about advancing this enterprise even further.

Catherine Gwin, Overseas Development Council: I found your remarks to be quite inspiring and optimistic. And yet towards the end of your talk you made the statement that we would only have limited time to follow this venture. What lies behind that statement? Were you speaking just in terms of political support? Or is there an economic component also? Are you saying that the potential of Chile and other countries to grow may be at stake?

FOXLEY: For the most part, I was speaking about politics in the sense that you have a group of countries who have passed through an extremely difficult period of fifteen years or so with little real hope. After that, these countries were able to stand up and recover their democratic systems, open up their economies, and strengthen the pri-
vate sector. This was a tremendous effort. The logical consequence was that these countries would be able to enter into a second phase within the multilateral trading system where their efforts would be rewarded.

This is the economic comment. If you look at Chile you see that we are doing very well. Chile is going to grow at 6 or 7% the next few years. We have a very high rate of investment. What is the problem? The answer is not so different from the answer that the American people gave when they voted for President Clinton. For you to be competitive in the world economy you cannot rely on raw materials without much valued added. Access to markets for higher value-added products becomes more and more difficult because tariffs and non-tariff barriers are present in Japan, the European Community, and the United States.

Second, when you integrate with countries at a greater level of development than yours, that forces your economy and workforce to share in new knowledge and technologies. You pass a threshold where you become a mature economy. And that is a threshold you cannot pass when the international economic system is biased and is basically constructed on an implicit division of labor, where the industrial countries produce sophisticated, high value-added, high-tech goods, and we are left to produce natural resource raw materials, textiles, a few shoes here and there and that is it.

So there is a political rationale and there is an economic rationale. When you have six years of nothing happening in the GATT, when the whole international system is hostage to a few farmers in France, Germany, maybe even in the United States. And all of us are there waiting to see what comes next. This is very threatening. Do not underestimate the backlash that is occurring already. Even in countries like Chile, Argentina, or Mexico, where we see that the international trading system is not working, where we see that nobody is maintaining the system, and that nobody really has the motivation to ensure that the system is going to work in the future. If this is the case, I don't know what will happen.

**STERN:** Minister Foxley was quite right to point out that the United States is also concerned that its exports will continue to emphasize commodities and not finished goods. I believe that President Clinton is trying to shift that composition. It is interesting to read Gary Hufbauer and Jeffrey Schott's book, *NAFTA: An Assessment*, which says that the United States will not gain that many high-wage, high-skill jobs. We will have to see if there are other strategies that allow the United States to move up the technological ladder.

A second point on the GATT: I would say that it has really been seven lean years. And I think that, unfortunately, the prospects for a resolution this year are dismal. This reinforces the need for us to think bilaterally and regionally about what is the best mechanism for us to liberalize and intensify the harmonization of standards and norms.

**Patricio Silva, Chilean Ambassador to US:** Ms. Stern, you mentioned that Asia is worried about NAFTA and Latin America. How do they reconcile that idea then with their own closed systems as demonstrated at the Singapore meeting and their opposition to membership for Chile, for example?

**STERN:** Good question. I was not at that Singapore meeting, but I believe that it is very important that, as we harmonize norms, we do not create new

Jamaica's Ambassador to the United States, Richard Bernal.
barriers. One should not divert trade nor raise barriers. But to be honest, I do not really have an answer to your question.

Richard Bernal, Jamaican Ambassador to the United States: I'm bothered by the way that you have laid out the process of trade liberalization because you imply that countries must first adjust and reform internally and then move into free trade. That model leaves many out and creates an unlevel playing field. In the case of the small countries of the Caribbean Basin Initiative, for instance, we cannot complete the adjustment phase without also having nondiscriminatory access to the United States. For us, market access must complement the internal reform process.

STERN: Well, this question goes back to why we need a GATT system in the first place. Non-discrimination and avoidance of trade diversion are relevant questions for NAFTA. I don't really think that the trade diversion question has been sufficiently examined.

On the sequencing problem, this issue has not really generated political concern although it represents a possible source of opposition in Congress.

FOXLEY: First, I do not think that all countries in Latin America necessarily want to integrate with NAFTA. Some countries—some very big countries—are not really interested. So it is not that everyone is waiting at home for a call from Washington.

Let me also say that Chile, for example, is very interested in Asia. Our main trading partner is Japan, not the United States. And we're running a big trade surplus with Japan of about $1 billion. So we're extremely interested in improving economic relations with Japan. Were Japan to offer us the possibility of a free trade agreement, we would take it up immediately.

In general, we hope to increase trade with Asia. President Aylwin was in Malaysia, Japan, China, and we will continue to focus on our relations there because Asia is the fastest growing region in the world. And because of our export composition, we also encounter fewer barriers. So if the NAFTA debate goes on and on forever, there is no doubt but that we will look to the Pacific. If there is movement in terms of countries grouping together, we would be interested. These days you cannot take anything for granted. The international economic scene is changing too fast.

On the second question of sequencing, I was talking more about diversity, to get access to other area's markets. I think each group of countries has its own economic reality and their policies must accommodate that. You cannot just say, here is NAFTA and you must follow it. And the Caribbean countries have their own history of regional integration, their own needs, and their own pace, and that must be taken into account.

Ron Scheman, Heller, Rosenblatt, & Scheman: Given the reality of what is going on with NAFTA, the battles in Congress and the cost to the President of getting it passed, what is the possibility of new free trade agreements in any near-term scenario? I just came back from some speaking engagements outside the Beltway and I was very disappointed at how weak a constituency there is for NAFTA. And even if it gets through, where is the constituency for any new free trade areas?

STERN: I agree that the pro-NAFTA constituency has yet to emerge with strength and in fact, there is a lot of opposition to it. It is possible that we have bit off more than we can chew. NAFTA is a huge bite. I do not mean to mix metaphors here but we do not even know what will happen with the Uruguay Round and even if that cake will ever get baked.

I'm inspired by Minister Foxley's comment on diversity—that each country represents a unique situation. Quite frankly, I think the argument for a Chilean accession is a much easier sell than Mexico's becoming a member.

In general, there remain a number of challenges in terms of shaping the argument and educating the public, just as we have seen with President Clinton's success on the budget package. He will have to build at the grassroots level and explain the economic arguments, making a distinction between the cases, and taking one thing at a time.
Ernest Preeg, CSIS: Minister Foxley, I’d like to hear your reaction to the comment of Paula Stern that, at the regional level, the approach should be broadened to an Asian Pacific context. I think it’s significant that in the American University speech, mention was made of APEC but not of the EAI. What is your feeling—or more broadly the feeling among your colleagues in Latin America—in terms of the change of orientation that the EAI be broadened to an East Asian-Pacific focus?

FOXLEY: Well, I think that it is a very attractive option and deserves careful consideration. More than half of our exports are in the Pacific Rim anyway, if you take into account the North American coast. This is also true for Mexico and other Latin American countries.

The question may be: How do you better relate with Japan? Do you go and try to fight it out? Or start a difficult antagonistic situation where you might end up in a trade war? Or would you like to engage countries in Asia, and eventually Japan at the end of the road, in an expansion scheme with general trade rules. It would be more difficult for Japan to resist, under these circumstances. It might be a smart way of approaching the problem.

The only other question mark is related to the U.S. system. We are sometimes surprised by the workings of the political system in the United States. After all, trade is such an important part of this country’s history, and the United States was organized around the basic statement that expanded trade and prosperity can strengthen freedom. But if you say these things outside the Beltway, no one has heard of it. This is a problem. How many of these new initiatives can you take on? You have to be selective in picking a few because the political system might not absorb more. As a public official, I know that you need to produce results and success stories. So in choosing countries, you must choose some that will produce results quickly and show success.

STERN: I only want to add that this issue requires a lot of presidential leadership. If not, Congress will step in with a view less in line with the broad national interest in terms of global growth, recovery, export expansion.

Second, the president must also play an important role in terms of educating the public on the importance of export expansion rather than import contraction. That message must be sent out repeatedly and put in concrete terms related to why it is good for us. The notion that nothing succeeds like success is also very important.
Remarks by the Honorable Paula Stern  
President, The Stern Group  
Before the Economic Summit  
International/Latin America Audit

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PRESIDENT ELECT CLINTON: I’d like to ask Paula Stern now to come forward to discuss Mexico and Latin America. She is President of the Stern Group, an economic analysis and trade advisory firm in Washington, senior advisor and member of the Trade Policy Subcouncil of the Competitiveness Policy Council. For the past fourteen months she has been a senior advisor on trade and international economic affairs to us, and was formerly chair of the International Trade Commission. Paula—

PAULA STERN: Thank you so much, Mr. President-elect, Mr. Vice President-elect. I thank you for including me in this teach-in. As an aging baby boomer it’s been a long time since I’ve attended a teach-in, and I think that one on economics is just right for today.

Over the past year you’ve drawn the tight connection between domestic and international issues, and in Putting People First you link world growth to the health of the U.S. economy. Today I’d like to take a minute of my time to put my assigned area, Latin America, into this global context as it relates to the long-term health of the U.S. economy. Our first order of business must now be reviving the domestic economy, and trade—trade with Latin America in particular—is an important factor in making that recovery sustainable.

America’s economic vitality depends more than ever on economic conditions abroad. In the last 20 years, trade has doubled as a percentage of our entire national product to one fourth of the total, and we export one fourth of all the goods we make. Exports have become crucial for American economic growth and job creation, particularly since the effectiveness of other policy tools has been severely hampered by past economic mishandling. Just since 1984, export expansion added one million manufacturing jobs. About one-third of all U.S. growth in the last six years has come from cutting the trade deficit. And in 1991, the recession would have been twice as deep in the absence of continued trade gains.

However, continued strong export growth and improvement in the U.S. trade deficit now face major challenges. The greatest threat to U.S. export performance is the economic slowdown affecting most of the industrialized world. Japan’s economy is faltering, and Germany’s recession is hampering economic growth throughout the European Community. As a result, our main export markets are stagnant and a drag on the tentative domestic recovery we may be experiencing. Additionally, the yen’s current undervaluation threatens U.S. trade performance. To illustrate the significance of overseas growth on the U.S. economy, every one percent of growth in the rest of the industrialized nations is worth $10 billion to our trade position—or about 200,000 jobs.

Now, that’s the bad news. The good news is in emerging markets, particularly in Latin America. Developing country markets have provided nearly three-quarters of U.S. export growth this year. Sales to Latin America alone grew by 18 percent in 1991 and are expanding almost three times as fast as U.S. exports to the world as a whole. That’s almost four times as fast as the increase to the European Community, and seven times as fast as the increase to all developed countries. Now, if you break the figures down a little further, they show that 15 percent of our exports go to Latin America now, and about half of those go to Mexico. Improvement in the trade balance with Mexico accounts for more than 70 percent of the overall improvement with Latin America since 1983.

Compare the picture today to the disastrous consequences of the debt crisis of the 1980s in Latin America. Then, Latin America sought relief from its crisis by cutting imports while increasing exports. Our exports, U.S. exports, to that region dropped drastically in that lost decade, costing hundreds of thousands of U.S. jobs and
creating a massive U.S. trade deficit with the region. During my nine-year service at the International Trade Commission, which overlapped with this period, I took the opportunity to note in testimony on Capitol Hill that U.S. firms and workers were suffering grievously and were seeking relief from the surge of imports that followed in the wake of Latin American contraction.

But today, Latin America is turning around. After the lost decade of huge resource outflows, hyperinflation, and shrinking incomes, the region is regaining lost ground. In what has been likened to a “silent revolution,” market-oriented economic development strategies are now being adopted by most Latin American countries. Governments throughout the hemisphere, shunning the statist past, have restrained budgets, cut inflation, curtailed controls on prices and markets, privatized and deregulated economic production, and removed barriers to trade and foreign investment.

This economic pluralism is a breeder of political pluralism in that region, while fostering better relations between the United States and our southern neighbors. And as an extra dividend to these developments for the United States, Latin America is now our strong partner in efforts to achieve strengthened trading rules in such areas as services, investment, and intellectual property rights protection at the Uruguay Round of multilateral trade talks.

Freer trade and economic integration are at the leading edge of these positive developments in Latin American economic policy. The peoples of that region are, of course, the greatest beneficiaries of that change, but we too are benefitting. Long-established market presence puts U.S. business in a strong position to profit from renewed economic growth, freer trade, and from expanding consumer markets. Latin America spends 50 cents of each import dollar on U.S. goods, and for Mexico it is 70 cents. Nowhere else does the United States have that kind of advantage.

Revived U.S. exports to Latin America have reversed the staggering U.S. trade deficits of the 1980s. In 1984 our trade with Latin America left us $17 billion in the red, but this year, we're running a surplus, with exports of over $75 billion. And exports mean more jobs.

It is clear, then, that Latin America is important to the economic health of our own country. However, trade with Latin America is not enough. Trade with the region is a relatively small part of our total trade. The rapid growth rate of exports to Latin America is unsustainable because of the huge external deficits that many of these countries are developing once again. Moreover, the largest economy of the region—Brazil—continues to drift. And problems loom on the horizon as disaffection grows with the slow pace of economic gains for the lower income groups in that region.

In sum, while strong export growth to Latin America and the rest of the developing world is a welcome cushion, it cannot make up for the slowdown in developed countries. Nor can it compensate for the fact that U.S. imports are once again increasing. Latin America—and particularly its best performers, Chile, Mexico, and Argentina—has shown that tough economic reform programs—stressing fiscal discipline, freer markets, and industrial restructuring—can create the conditions for recovery and sustained growth.

As our experience with Latin America has shown, the pace of economic growth abroad—together with a competitive exchange rate and overseas market access—has a significant impact on production and jobs at home. The lessons we can draw have to do with the need 1) to promote faster growth abroad, 2) to promote a competitive exchange rate for American business, and 3) to bring down trade barriers and expand international trade, not just in this hemisphere but globally.

Trade is not a cure-all for our economic needs. But trade expansion—in sync with domestic policies that strengthen us here at home as competitors in the global marketplace—can play a crucial role in building a sustainable, long-term recovery. Thank you.
Chilean Trade with the Asia-Pacific Region

The strength of the Chilean economy is underpinned by growing and diversifying exports. These reached $9.9 billion U.S. dollars in 1992, representing around 33% of our GDP. Chilean exports today are reasonably diversified and evenly distributed among the markets of the Americas (33.7%), Asia (31.6%) and Europe (30.9%). More precisely, we can state that the four mega-markets (the EEC, Japan, the United States, and Latin America), represent 28.9%, 18.7%, 16.9%, and 16.8%, respectively, of total Chilean exports.

The Asia-Pacific region has become singularly important for Chile as well as for other Latin American countries. In the case of Chile, it constitutes the most dynamic market for Chilean exports. Last year Asia outstripped the EEC as Chile’s first export market, while Japan surpassed the United States for the second consecutive year as Chile’s first trading partner. Since 1991 trade with Malaysia has grown more than 57%, with China 253% and with Korea, Taiwan, and Hong Kong 25%. Between 1985 and 1990, exports to the region increased by approximately 500%.

Within the Asia-Pacific region, Japan constitutes Chile’s most important trade partner, because it is the biggest market for Chilean exports. In 1992, Chile exported 1,707 million dollars to Japan, an increase of 23% since 1990.

The increasingly strong economic relations that Chile has with the Asia-Pacific region are not the only reason why a closer integration is necessary. Chile can serve Asia-Pacific countries as the door to other Latin American markets. This can allow a faster integration with the rest of the Pacific basin economies and the creation of larger markets from which all can benefit. It is time to promote a better understanding of mutual realities and to promote greater contacts within our countries.

It is also important to point out that if there is no clear leadership coming from the United States with respect to a hemispheric policy, it is possible that Japan or the EEC will take advantage of the emergence of the new Latin American markets. On the other hand, Latin American countries such as Chile will have to seek access to markets other than the United States.

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Participants in March 26 Forum

Don Abelson
Office of the U.S. Trade Rep.

David Carlin
Akin, Gump, Strauss, Hauer & Feld

Carmen González de Amezua
Spanish Mission to the OAS

Raymond Ahern
Congressional Research Service

Cynthia Case
Sawyer/Miller Group

Catherine Gwin
Overseas Development Council

Richard Archi
Inter-American Development Bank

Roberto Chadwick
DAM

Lincoln Gordon
Brookings Institution

Anne Arundale
International Trade Commission

René Cortázar
Minister of Labor

Peter Hakim
Inter-American Dialogue

William Barreda
Department of Treasury

Chile

Christian Hohlbergh
Embassy of Chile

William Beddow
Caterpillar, Inc.

Alejandro Foxley, Jr.
Georgetown University

Jon Huenemann
Office of the U.S. Trade Rep.

Ambassador Richard Bernal
Embassy of Jamaica

Mauricio Cortes
Embassy of Brazil

George Ingram
House Foreign Affairs Committee

Eric Biel
Senate Finance Committee

Pierson Criebe
Ecolab

Lois Jackson
IBM

Albert Borlino
Daimler-Benz

Michael Curtin
Bechtel Group, Inc.

John Jackson
Georgetown University

Linda Borst
Inter-American Foundation

Bob Dockery
Office of Senator Dodd

Jim Kenworthy
Nathan Associates, Inc.

Patricia Brenner
International Monetary Fund

Susan Duarte
Hispanic-International Trade Council

William Knepper
Council of the Americas

Patrick Brewer
Council of the Americas

Mark Falcoff
American Enterprise Institute

Chris Kruger
Inter-American Foundation

Eric Briego
House Trade and Commerce Subcommittee

Fernando Fernández
International Monetary Fund

Deborah Lamb
Senate Finance Committee

Meredith Broadbent
House Ways and Means Committee

Peter Field
North-South Center

Daniel Lederman
ECLAC

Joan Caivano
Inter-American Dialogue

Nicolas Flaño, Chilean Executive Director, World Bank

Deborah Leipziger
Inter-American Dialogue

Duncan Cameron
Chile-U.S. Chamber of Commerce

Bill Frymoyer
Office of Representative Gephardt

Susan Leslie
Digital Equipment Corp.

Jan Gentry
AT&T

José Tomás Letelier
Embassy of Chile
Nora Lustig
Brookings Institution

Elisa Martínez-Tamayo
Inter-American Dialogue

Geraldine Manion
Carnegie Corporation

Bruce MacLaury
Brookings Institution

Charlie Marten
Department of State

Oscar Melhado
ECLAC

José Morande
University of Maryland

Heraldo Muñoz
Chilean Mission to the OAS

Charles Nelson
U.S. Institute of Peace

Mary Ott
US-AID

Dario Pavez
CORFO, New York

Lino Piedra
Chrysler Corp.

Ernest Preeg
CSIS

Alfred Reifman
Congressional Research Service

Rita Rodríguez
Export-Import Bank of the U.S.

Susan Roraff
Woodrow Wilson Center

Robin Rosenberg
North-South Center

Juan Salazar
Minister of Transportation
Chile

Kristen Sample
Harvard University

Ronald Scheman
Heller, Rosenblatt & Scheman

Antonia Silva
Ambassador Patricio Silva
Embassy of Chile

Andrés Solimano
World Bank

Dan Spiegel
Akin, Gump, Strauss, Hauer & Feld

John Steinbruner
Brookings Institution

Koji Sumiya
Export-Import Bank of Japan

Blas Tomic
Inter-American Development Bank

Roger Turner
Department of Commerce

Enrique Umana
Colombian Trade Bureau

Donna Lee Van Cott
Inter-American Dialogue

César Verduga

Gunther Wilhelm
Exxon Corporation

Michael Wilson
Heritage Foundation
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The Institution traces its beginnings to 1916 with the founding of the Institute for Government Research, the first private organization devoted to public policy issues at the national level. In 1922 and 1924, the Institute was joined by two supporting sister organizations, the Institute of Economics and the Robert Brookings Graduate School. In 1927, these three groups were consolidated into one institution, named in honor of Robert Somers Brookings (1850-1932), a St. Louis businessman whose leadership shaped the earlier organizations.

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The Inter-American Dialogue is a forum for sustained exchange among leaders of the Western Hemisphere and an independent, nonpartisan center focusing on U.S.-Latin American economic and political relations. The Dialogue is Washington's only center for policy analysis dedicated primarily to U.S.-Latin American relations, and to convening policymakers, business and financial leaders, heads of non-governmental organizations and intellectuals seeking practical responses to hemispheric problems. Founded in 1982 and operating under the auspices of The Aspen Institute, the Dialogue is currently co-chaired by Peter D. Bell and Javier Pérez de Cuéllar. Its acting president is Peter Hakim.

Assembly of Western Hemisphere Leaders. The Dialogue's 100 members—from the United States, Canada and sixteen Latin American and Caribbean countries—include five former presidents, as well as prominent political, business, labor, academic, media, military, and religious leaders. At periodic plenary sessions, members analyze key hemispheric issues and formulate policy recommendations. The Dialogue presents its findings in comprehensive reports that are widely recognized as balanced and authoritative.

Center for Policy Analysis. The research agenda of the Dialogue is divided into two broad categories. The Program on Democracy and Peace focuses on issues of democratic change, human rights and conflict resolution, while the Program on Hemispheric Integration and Social Opportunity emphasizes the management of economic issues in inter-American relations, particularly with regard to the creation of a hemispheric free trade system and the problems of inequity and poverty.

Outreach Programs. The Dialogue's Congressional Members Working Group and Congressional Forum on Latin America enable it to educate Congressional Members and staff on salient policy issues affecting Latin America and inter-American relations. The D.C. Liaison Committee on Latin America meets the long-standing need to improve communications among the many Washington-based non-governmental organizations that are concerned with Latin America, and to build stronger bridges between the NGO community and the U.S. government. Forums in Latin America are designed to catalyze discussions on hemisphere-wide issues.