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Enterprise for the Americas Initiative: Background, Congressional Action, and Future Prospects

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ENTERPRISE FOR THE AMERICAS INITIATIVE: BACKGROUND, CONGRESSIONAL ACTION, AND FUTURE PROSPECTS

SUMMARY

Three years have passed since President Bush announced a three-pronged approach to stimulate economic growth and development in Latin America. Termed the "Enterprise for the Americas Initiative" (EAI), the plan called for (1) the reduction of official debt owed to the United States by selected Latin American and Caribbean countries; (2) the establishment of a new multilateral investment fund (MIF) at the Inter-American Development Bank; and (3) the eventual creation of a Western Hemisphere free trade system.

Since the inception of the EAI, the United States has reduced obligations under bilateral food assistance (P.L. 480) and development assistance (AID) programs for Argentina, Bolivia, Chile, Colombia, El Salvador, Jamaica, and Uruguay by approximately $875 million. Viewed from one perspective, this debt relief is approximately equal to the estimated $900 million in the U.S. development and economic support fund assistance for Latin America for FY1993. Viewed from another perspective, this amount accounts for less than 8 percent of the estimated $12 billion in U.S. debt holdings by Latin American and Caribbean countries.

The EAI provides that interest payments on the reduced debt obligations can be made in local currency and placed in special funds to be used for environmental and natural resource and child survival programs agreed upon by the United States and the debtor government. A total of $154 million in environmental and child development resources could be generated by the amount of debt reduction that has taken place as of January 15, 1993.

The multilateral investment fund (MIF), proposed by the United States to increase investment policy reforms in the region was formally established on January 13, 1993, with an estimated $1.3 billion in pledges. Congress has appropriated $90 million for the fund; additional appropriations will be required to fulfill the U.S. five-year pledge of $500 million for the MIF. The effectiveness of the MIF in helping the region attract and retain investment capital is subject to different interpretations.

The proposal for a hemispheric system of free trade areas remains arguably the most important component of the EAI. The proposal has been received enthusiastically by leaders in the region, but it is more controversial in the United States. While the proposal offers the United States some new economic opportunities and closer ties with Latin America, some critics argue that it makes more sense for the United States to integrate with the most efficient economies in the world regardless of geographical considerations.

Full implementation of the investment and debt reduction components of the EAI will require additional appropriations by Congress. Unless these proposals are viewed as supportive of U.S. economic and foreign policy interests, progress towards full implementation may be thwarted. Similarly, U.S. policy regarding hemispheric free trade will depend importantly on whether NAFTA is approved and whether hemispheric integration is viewed as supporting U.S. economic and political interests.

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INTRODUCTION

On June 27, 1990, President Bush announced a three-pronged approach to stimulate economic growth and development in Latin America. Labeled the "Enterprise for the Americas Initiative" (EAI), the plan called for: (1) the reduction of official debt owed to the United States by selected Latin American and Caribbean countries; (2) the establishment of a new investment promotion fund at the Inter-American Development Bank (IDB); and (3) the eventual creation of a Western Hemisphere free trade system.

The EAI was widely touted as the most important U.S. policy initiative toward Latin America and the Caribbean since the Alliance for Progress. Former Secretary of State Henry Kissinger labeled it "perhaps the most creative -- if least well known -- foreign policy initiative of the Bush Administration" because of its potential to build a community in the hemisphere "based on a genuine sense of shared purpose." Latin American leaders also reacted positively, interpreting the EAI as an opportunity to deepen and accelerate the political and economic reforms already underway in the region.

Of the three components of the EAI, most interest was centered on hemispheric free trade. While the free trade proposal was short on specifics, it was broadly interpreted by Latin leaders as an offer of improved trade and economic relations with the United States.

Three years have passed since the EAI was launched. This report explains the rationale for the EAI, discusses the implementation of the program to date, and assesses its future prospects.

RATIONALE FOR THE INITIATIVE

The EAI was in many ways a statement of a new policy framework towards Latin America. Changing political and economic conditions world-wide and in the region influenced the Bush Administration to formulate the EAI. The President's attendance at a 1990 drug summit meeting in Bogota, and Mexico's decision to seek free trade with the United States played roles in the timing of the announcement of the new initiative.

With the end of the Cold War, many Latin American leaders had been uneasy about the possible diversion of U.S. attention and interest to other areas and about their possible exclusion from emerging trading blocs in Europe and Asia. The initiative was in one sense an effort to assure the region that a stronger partnership -- not neglect -- was the objective of the United States. In contrast to past initiatives that had a heavy security component, the EAI focused squarely on building a stronger economic partnership.

The focus on a closer economic partnership was made possible by important economic and political changes that were sweeping Latin America. Countries such as Chile, Argentina, Mexico, and Venezuela had been liberalizing their trade and investment policies unilaterally, deregulating many sectors of their economies, and consolidating democratic reforms. The Bush Administration viewed these reforms as the best formula for the economic recovery of the region, and conditioned every component of the EAI on market-oriented trade and investment reforms.

Two specific events were also instrumental in the timing of the decision to formulate the initiative. The first was the President's attendance at a February 1990 drug summit meeting in Bogota with the presidents of Peru, Columbia, and Bolivia. Struck by the changes that were occurring in Latin America, the President reportedly asked Treasury Secretary Brady to work with the White House staff in devising a new program for Latin America. At the time, the President had a visit scheduled for five countries in South America for September 1990 (which was subsequently postponed to December) and a new program and agenda would be something the President could bring with him on the trip.

The second event was Mexico's June decision to ask the United States to enter into negotiations to establish a free trade area. The request was a radical departure from Mexico's longstanding nationalistic and independent stance, as well as from its protectionist policies towards foreign goods and capital. But the request for a special relationship with the United States was disquieting to many Latin American governments who feared they might be left behind. President Bush's announcement of the EAI two weeks after Mexico's request did much to alleviate those fears by indicating a willingness to enter into better relations with the rest of Latin America as well.

The formulation of the EAI, of course, depended on the fact that the United States has important economic and political interests at stake in Latin America. In the absence of a prosperous and politically stable Latin America, U.S. interests would be hurt through lower exports, loan defaults, increased drug smuggling, and heightened immigration pressures. Some analysts also argue that it was conceived as a means to pressure allies to complete the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) or as a response to the formation of a strong regional trading system in Europe in 1992.

EAI'S THREE COMPONENTS

OFFICIAL DEBT REDUCTION

Under the debt reduction component of the EAI, the Bush Administration proposed to seek authority from Congress to reduce and restructure the stock of official debt that Latin American countries owed the U.S. Government, an amount estimated at $12 billion in 1990 (see annex 1 for a breakdown by country and category). By easing the burden of debt, the EAI aimed to encourage economic growth and help Latin America and Caribbean countries attract new investment capital. This was a major departure from previous U.S. policy; except for some African debt, the U.S. had not forgiven official debt.

Since the inception of the EAI, the United States has reduced by approximately $875 million the obligations under the bilateral food assistance and development assistance programs for Argentina, Bolivia, Chile, Colombia, El Salvador, Jamaica, and Uruguay . Environmental and child development resources that could be generated by this amount of debt reduction total $154 million (see annex 2 for a summary of debt reduction taken to date).

To put this amount of debt reduction in perspective, $875 million is approximately equal to the amount of U.S. development and economic support fund assistance for Latin America during FY1993 (estimated at $900 million). On the other hand, this sum accounts for less than 8 percent of the estimated $12 billion in U.S. debt holdings in Latin America. The $12 billion owed the U.S. Government, in turn, constitutes less than 3 percent of the region's total external (both public and private) debt. Even if all of the $12 billion were eliminated, it would make only a small dent in the region's debt of over $400 billion. According to an estimate by the Overseas Development Council, the proposed U.S. debt reductions might save Latin America $400 million annually—less than 1 percent of the region's yearly interest bill.[1]

Even though the benefits in the aggregate may be small from a Latin American perspective, they could be much more significant for a few individual countries. Several smaller countries of the Caribbean Basin such as El Salvador, Costa Rica, the Dominican Republic, and Haiti owe a significant share (over 20 percent) of their debt to the United States. In addition, U.S. debt reduction efforts may encourage Japan and Europe to follow suit. Japan and Europe combined hold more than $38 billion in Latin American public debt—an amount more than three-times greater than the U.S. public debt. Moreover, the permanent debt reduction under the EAI assures debtor countries of reduced payments, thereby permitting them to focus greater attention on priority developmental needs.[2]

Four key elements of the EAI's debt reduction are described below. The first involves debt reduction on concessional (i.e., below market interest rate) loans provided by the U.S. Agency for International Development (AID) and the Food for Peace (P.L. 480) program. The second entails debt reduction on non-concessional (i.e., market rate) loans under the Export Import (Exim) Bank and Commodity Credit Corporation (CCC) programs. The third pertains to the country eligibility criteria. And the fourth relates to environmental and child survival considerations that were built into the debt reduction program.

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[1] Hakim, Peter. President Bush's Southern Strategy: The Enterprise for the Americas Initiative, The Washington Quarterly, Spring 1992, p.97.

[2] U.S. Department of Commerce, Enterprise for the Americas Fact Sheet, January 15, 1993, p.18.

Concessional Debt

U.S. concessional debt owed by Latin American and Caribbean countries totals $7.0 billion. This figure consists of $5.1 billion in AID loans and $1.9 billion in PL-480 food financing loans.[3]

Under the EAI debt reduction scheme, the stock of concessional debt owed to the United States will be substantially reduced. New dollar payments on a reduced stock of debt would be applied to retire principal, thereby assuring the eventual elimination of a country's concessional debt.[4] Interest payments on new and reduced debt are assessed at lower rates and are payable in local currency, provided that each country negotiates an Environmental (in the case of P.L. 480 debt) or Americas (in the case of AID debt) Framework Agreement, through which each agrees to commit these resources to environmental (and, in the case of AID debt, child development) projects. Absent such an agreement, interest is paid in dollars.[5]

Debt reduction for the PL-480 concessional portion was partially authorized with enactment of the "farm bill" at the end of 1990.[6] Based on the farm bill's authorization, the President entered into debt reduction agreements with Bolivia ($30.3 million), Chile ($16 million), and Jamaica ($216.8 million) that resulted in a total debt reduction of $263 million in fiscal year 1991.

Congress appropriated approximately $40 million for implementation of P.L. 480 debt reduction for fiscal year 1993.[7] This appropriation enabled the United

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[3] U.S. Department of Commerce, January 15, 1993, p.17.

[4] Many Latin American and Caribbean countries have been able to make only interest payments, and some in the past have been forced to reschedule a portion of interest payments through the Paris Club. The rescheduled interest is capitalized or added to the stock of debt, thereby increasing debt service obligations in subsequent years. Cumulative reschedulings can increase the stock of debt a country owes. The Bush Administration argued that the EAI approach to debt reduction, by attempting to eliminate a country's concessional debt over time, offers significant improvement over the Paris Club approach.

[5] U.S. Department of Commerce and the U.S. Department of the Treasury, Fact Sheets on the Enterprise for the Americas Initiative, October 25, 1991, p. 15.

[6] S.2830, officially titled the Food, Agriculture, Conservation, and Trade Act of 1990, passed the House on October 23, the Senate on October 25, and was officially signed into law (P.L. 101-624) on November 28, 1990. Section 1512 deals with this matter.

[7] The appropriation of funds was required by the credit reform provisions of the Omnibus Reconciliation Act of 1990 (P.L. 101-508, Title XII). This provision requires that the Administration calculate the receipts that a reduced or

States to eliminate $268.4 million of El Salvador's debt and about $400,000 of Uruguay's debt.[8]

The Congress authorized AID debt reduction in 1992 by amending the Foreign Assistance Act of 1961.[9] Congress also appropriated $50 million for the reduction of AID debt for fiscal year 1993. Pursuant to these actions, the U.S. Treasury Department completed reductions on AID debt for El Salvador ($195.5 million), Chile ($14.7 million), Columbia ($31 million), Uruguay ($3.3 million), Argentina ($3.8 million), and Jamaica ($94 million).[10]

Non-concessional Debt

Latin American and Caribbean governments owe about $5.5 billion in non-concessional debt to the United States. Of this amount, about $4.0 billion is owed to the Export Import Bank and about $1.5 billion to the Commodity Credit Corporation.[11]

In 1992, Congress authorized debt reduction on both Exim Bank and CCC loans.[12] However, Congress did not appropriate funding for this program in the fiscal year 1993 budget.[13]

If appropriations are forthcoming, a portion of non-concessional debt could be sold to debtor countries for debt buy-back if the debtor country agreed to commit funds to the environment; a portion of the debt could be sold to

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forgiven loan would have generated if it had been repaid, and that Congress appropriate new money to cover the cost of the foregone income.

[8] U.S. Department of Commerce, January 3, 1993, p.18.

[9] The Enterprise for the Americas Act of 1992 (P.L. 102-549) amended the Foreign Assistance Act of 1961 to authorize the reduction of concessional loans made to eligible foreign countries.

[10] U.S. Department of Commerce, January 15, 1993, p.18.

[11] U.S. Department of Commerce, January 15, 1993, p.19.

[12] The Export Enhancement Act of 1992 (P.L. 102-429), signed into law October 21, 1992, authorized the sale, reduction, or cancellation of outstanding Export Import Bank loans for eligible Latin American and Caribbean countries. And the Enterprise for the Americas Initiative Act of 1992 (P.L. 102-532), signed into law October 27, 1992, amended Title VI of the Agricultural Development and Assistance Act of 1954 to authorize sale of up to 40 percent of an eligible country's Commodity Credit Corporation debt if at least 40 percent of the debt sale price, or the difference between the price paid for the debt and its face value, is used to fund environmental activities.

[13] U.S. Department of Commerce, January 15, 1993, p.19.

facilitate debt-for-nature, debt-for-development, and—in the case of Eximbank debt—debt for equity swaps in eligible countries. These swaps would retire part of a country's non-concessional obligations to the United States. Less than 20 percent, however, would be eligible for swaps.[14]

Eligibility Criteria for EAI Debt Reduction

Each Latin American and Caribbean country seeking to qualify for P.L. 480 and AID debt reduction and sales of CCC assets and Eximbank debt must meet a variety of economic criteria.[15] At a minimum, each country must:

- have a macroeconomic program with the International Monetary Fund, or have current structural or sectoral loans from the World Bank;
- have in effect major investment reforms with the InterAmerican Development Bank, or otherwise be making progress towards an open investment regime; and
- if appropriate, have agreed with its commercial bank lenders on a satisfactory financing program.

In addition, to qualify for AID debt reduction, countries must meet certain "political criteria." Each country must:

- have a democratically elected government;
- not repeatedly provide support for international terrorism;
- not fail to cooperate on international narcotics matters; and

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[14] U.S. Department of Commerce, January 15, 1993, p.19. The following example of how a swap might work is provided in this document: " A potential purchaser of debt would negotiate a swap with an eligible country government. For example, a purchaser can offer to arrange a $1-million reduction in Eximbank debt or CCC in exchange for a negotiated amount in local currency. The mechanism will involve four steps. The U.S. Government will notify the debtor government of the amount of Eximbank or CCC debt which the U.S. Government is prepared to cancel through swaps. Debtor governments will negotiate with private parties the terms of the swap, committing local currency. The private party will then receive certification from the debtor government of its agreement, which it presents to Eximbank or CCC along with cash for the purchase price. At this point, Eximbank or CCC cancels a portion of the debt." For more information on debt-swaps, see CRS Report 93-227, Debt-for-Nature Initiatives.

[15]For AID debt reduction, these criteria must be met "unless the President determines that [such arrangements or programs] could reasonably be expected to have significant adverse social or environmental effects." (P.L. 102-549).

- not engage in a consistent pattern of gross violations of human rights.

The President has delegated the authority to determine country eligibility to the Secretary of the Treasury. With respect to the economic criteria, the Secretary's determination is made in accordance with the recommendation of the inter-agency National Advisory Council (NAC). With respect to the political criteria, the Secretary's determination takes into consideration the recommendations of the Secretary of State.[16]

Environmental/Child Survival Component

As stated above, the EAI proposed that interest payments on the reduced debt obligations would be made in local currency and placed in special funds to be used for environmental and natural resource programs agreed upon by the United States and the debtor government. The rationale for concentrating funds on environmental programs is to ease pressures on these countries to farm or log marginal lands and to deplete their renewable and natural resources for much needed hard currency. Reports of disappearing winter habitat for migratory songbirds, global warming, and loss of biological diversity, and the impact of rapid resource development on these countries' long-term economic stability are reasons for U.S. concern about the environment in Latin America and the Caribbean.

In authorizing the reduction of P.L. 480 debt, Congress allowed countries to make interest payments on the restructured debt in local currency if they entered into an environmental framework agreement (EFA) with the United States. Environmental framework agreements were entered into with Bolivia and Jamaica on November 26, 1991, and with Chile on February 27, 1992. These EFAs establish host-country Environmental Commissions, with U.S. Government participation, and oversee EAI environmental funds and proposals. More than $32 million in local currency will be paid into these environmental funds over the life of the P.L. 480 debt reduction agreements with these three countries.[17]

In authorizing the reduction of AID debt under the EAI, Congress expanded the scope of the debt reform initiative by allowing interest payments on the remaining AID debt to be used additionally for child survival and other child development activities.[18] Once implemented, the child survival component will function in a manner similar to the environmental program. Congress named the agreements that allow the payment of interest in local currency on

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[16] U.S. Department of Treasury. The Operation of the Enterprise for the Americas Facility, Report to Congress, January 1993, pp. 16-17.

[17] U.S. Department of Commerce, January 15, 1993, p.20.

[18] The Enterprise for the Americas Act of 1992 (P.L. 102-549) amended the Foreign Assistance Act of 1961 for this purpose.

remaining AID debt "Americas Framework Agreements.[19] While no such agreements have been entered into or signed yet, the United States is expected to offer to enter into such agreements with the governments of Colombia, El Salvador, Uruguay, and Argentina.[20]

In authorizing the reduction of P.L. 480 debt, Congress established a public/private Enterprise (initially "Environment") for the Americas Board to oversee implementation of the environmental, child survival, and development aspects of the EAI.[21] The statutory purpose of the Board is to:

- advise the Secretary of State on negotiation of environmental and Americas framework agreements;

- ensure, in consultation with local governments and groups, proper constitution of local administering bodies; and

- review the programs, operations, and fiscal audits of the local administering bodies.[22]

INVESTMENT

Under the EAI, the United States proposed to establish a new $1.5 billion multilateral investment fund (MIF), to be administered by the Inter-American Development Bank (IDB). The MIF would be capitalized by equal contributions of $500 million from the United States, Japan, and European countries.

The purpose of MIF is to provide grants to increase investment policy reforms in Latin America and the Caribbean. It is assumed that such reforms would help Latin America attract increased levels of foreign and domestic capital -- a necessary condition for Latin America's economic recovery and future growth.

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[19] U.S. Department of the Treasury, January 1993, p.8.

[20] U.S. Department of the Treasury, January 1993, p.8.

[21] The President is directed to appoint 11 representatives to the Board: five from the U.S. Government and six from private, non-governmental organizations. The current Board is chaired by the Treasury Department and includes representatives from the State Department, the Agency for International Development, the Department of Agriculture, and the Environmental Protection Agency. Private-sector members include: the Inter-American Foundation, the Natural History Museum of Los Angeles, the IWC Resources Corporation, World Wildlife Fund, and the Nature Conservancy. An additional non-governmental organization appointed to the board on January 15, 1993, was a representative from CARE with expertise in child survival.

[22] U.S. Department of Commerce, January 15, 1993, p.20.

In the past, restrictive investment regimes arguably have been a factor in hampering efforts to attract and retain capital.

The fund was formally established on January 11, 1993, with an estimated $1.3 billion in pledges. Five countries deposited instruments of ratification with the IDB: the United States, Japan, Chile, Honduras, and Peru.[23]

The MIF will disburse funds through three facilities: a Technical Assistance Facility which will grant funds to help countries identify and remove impediments to investment; a Human Resources Facility which will provide grants to retrain dislocated workers, finance vocational education, and provide management training; and an Enterprise Development Facility which will help improve basic business skills and provide seed capital for small-scale businessmen and entrepreneurs.

Some analysts argue that the MIF will spur the reform of investment regimes that are more hospitable to all investors, thereby attracting both domestic and foreign investors. Furthermore, it is argued that investment reforms in a few selected countries could provide a valuable example for similar reforms throughout Latin America.

Other analysts believe that the MIF can make only a small contribution to help Latin America overcome its capital shortage. They emphasize that the fund's proposed $300 million per year in disbursements is equivalent only to a single average size industrial investment in the region. Moreover, they argue that the MIF duplicates similar programs run by AID and the World Bank.[24] Others point out that net capital flows to Latin America, driven by external and internal factors, have increased sharply in recent years, rising from $9.6 billion in 1989 to $18.4 billion in 1990 and doubling again in 1991 to about $36 billion.[25]

Congressional Action

Congress authorized a $500 million contribution for the MIF and appropriated $90 million of FY 1993 funds for the first installment.[26] The $90 million figure was based on a conference compromise. The Senate recommended fully funding the Administration's $100 million request, but the House

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[23] U.S. Department of Commerce, 1993, p.15.

[24] Hakim, Peter, Washington Quarterly, p. 99.

[25] Kuczynski, Pedro-Pablo, International Capital Flows to Latin America: What Is the Promise? World Bank Economic Review, March 1993, pp 323-348.

[26] Title I of P.L. 102-391 contains the appropriation and Title IV, sec. 594 (b) contains the authorization.

recommended a funding level of $75.5 million.[27] Congressional appropriations will be needed for fiscal years 1994-1997 to fulfill the $500 million U.S. pledge.

In the legislation (P.L. 102-391), Congress stipulated that the Secretary of the Treasury was to use the U.S. voice vote in the donors committee of the fund to seek that one-third of the total amount contributed by donors be used for the Human Resources Facility of the fund. Congress also required the Secretary of the Treasury to use the voice vote of the United States to set eligibility requirements for countries receiving disbursements from the MIF. According to the legislation, "a country must have a government that is democratically elected, does not harbor or sponsor international terrorists, cooperates with the United States on narcotics matters, and is not engaged in a consistent pattern of gross violations of human rights by its instrumentalities including its military and security forces." Reflecting concern about the export of U.S. jobs abroad, the legislation also required the U.S. Executive Director to the Inter-American Development Bank to vote against funding for any project of the MIF if it is likely to cause a loss of jobs within the United States.

HEMISPHERIC FREE TRADE

The vision of a hemispheric system of free trade areas is arguably the most important component of the EAI. If successful, a Western Hemispheric Free Trade Area (WHFTA) would result in the largest market in the world -- more than 700 million people and a GDP of more than $7.3 billion.

Hemispheric Market Data
(1991 estimates)

	Total	United States	Canada	Mexico	Other LA/ Caribbean
Population (mil.)	724	253	27	90	354
GDP (bil.)	$7,351	$5,678	$593	$280	$800

The U.S. proposal for the eventual establishment of a WHFTA sparked an enthusiastic response in Latin America. Most countries in Latin America would like to move rapidly towards free trade with the United States. Even before the EAI was announced, most countries in the region had unilaterally liberalized their tariff and non-tariff barriers in order to promote trade expansion and economic growth. With the U.S. market accounting for over 50 percent of Latin America's exports, a WHFTA could be a key vehicle for the region to gain increased and more secure access to its most important market. A free trade agreement with the United States, it was also felt, would increase the attractiveness of the region to foreign investment, serve as a strong incentive for deeper economic and trade reforms, and insure against an increase in U.S. trade

[27] U.S. Department of Commerce, 1993, p. 16.

restrictions. Moreover, an economically integrated hemisphere would enable every nation to become more productive and to compete more effectively in the global economy.

The WHFTA offers the United States some new economic opportunities and closer ties with Latin America. In the 1980s, economic decline in Latin America had cost the United States export markets and jobs. U.S. Trade Representative Carla Hills noted, in July 1990, that U.S. exporters lost as much as $130 billion in exports to Latin America from 1982-1988. Subsequently higher rates of economic growth and greater openness to foreign trade have increased U.S. exports to the region. In 1991 alone, U.S. exports to 30 Latin American and Caribbean countries (excluding Mexico) increased almost three times as fast as U.S. exports to the world and four times as fast as U.S. exports to the European Community. As a result of robust export growth, the United States is currently running a $3 billion trade surplus with the region.[28]

While the rationale for a WHFTA is based mostly on economic considerations, the full dimensions of the WHFTA have remained undefined. The June 1990 EAI announcement envisioned a free trade system that could entail a number of free trade agreements with individual countries or with sub-regional economic groups. To achieve this, free trade agreements evolving in the hemisphere will need to be largely consistent in scope and terms with each other, with the North American Free Trade Area (NAFTA), and with the multilateral trading system.[29]

To be eligible for negotiating a free trade agreement, the Bush Administration stressed, a country or group of countries must be committed to a stable macroeconomic environment and to market-oriented polices before negotiations commence. Market-oriented policies include participation in good standing in the General Agreement on Tariffs and Trade, a willingness to open the economy to foreign investment and trade in services, and a commitment to enforce "world class intellectual property rights."

Recognizing that most Latin American countries do not meet these expectations yet, the United States has signed 16 bilateral/plurilateral trade and investment framework agreements with 31 Latin American countries (see Annex 3). Similar to a 1987 agreement with Mexico, these accords establish institutional mechanisms for discussing trade and investment issues and for resolving disputes. While the agreements do not imply that the United States will propose or enter into free trade negotiations with such countries in the near future, they enable progress to be made in eliminating barriers to trade and investment.[30]

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[28] U.S. Department of Commerce, January 15, 1993, p.3.

[29] U.S. Department of Commerce, January 15, 1993, p.10.

[30] U.S. Department of Commerce, January 15, 1993, pp. 12-13.

In the past, Bush Administration officials opined that the long-term goal of hemispheric free trade could take a decade or longer to achieve. Implementation of the North American Free Trade Agreement (NAFTA) is generally considered to be the necessary first step for moving towards a hemispheric free trade system. It is unlikely that the United States would enter into free trade agreements with other Latin American countries if the NAFTA pact is not approved by the U.S. Congress.[31] 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.

A movement towards hemispheric free trade is bound to be politically controversial. Some U.S. businessmen and academics argue that it makes more sense for the United States to integrate with the most efficient economies in the world as opposed to a regional grouping. Others believe that hemispheric free trade offers attractive benefits that our major trade competitors Japan and the European Community are already reaping as a result of their own regional integration schemes. Moreover, the Latin American countries have indicated a willingness to reduce existing trade and investment barriers.

Before the United States moves towards free trade with any other country in Latin America, a number of questions will need to be addressed. If NAFTA is not approved by the legislatures of all three countries, should the United States undertake negotiations with any other country or group of countries in the hemisphere? If NAFTA is approved, should Chile be incorporated into an expanding NAFTA, or should the United States seek a bilateral free trade agreement? If NAFTA is approved, should any special provisions be made for Caribbean Basin countries which currently enjoy a one-way preferential trade arrangement with the United States under the Caribbean Basin Initiative (CBI)? Should free trade agreements be limited to Western Hemisphere countries, or should the United States pursue such agreements with countries in Asia, Europe, or Africa? What has to be done to insure that the pursuit of hemispheric free trade agreements does not conflict with the building of an open global trading system?

FUTURE OF THE INITIATIVE

With the election of President Clinton, many Latin American governments expressed concern that the new Administration might not carry through on the new economic partnership that the EAI promised. Their concerns were based on the fact that Clinton's views towards Latin America were not well known, that the central priority of his Administration would be domestic issues, and that important constituencies of the Democratic Party might oppose hemispheric free trade.

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[31]The Canadian parliament has already approved NAFTA and Mexican approval is not in doubt.

Since taking office, the Clinton Administration has taken actions that have helped allay concerns that the new Administration would reverse the U.S. policy direction embodied in the EAI. The Under Secretary of the Treasury, Lawrence Summers, stated on March 30, 1993, that the Administration will "continue to support its [the EAI's] goals in the area of debt, investment, and trade." President Clinton has been upbeat about Latin America, calling for the construction of a genuine "hemispheric community of democracies" and emphasizing the positive contribution that a prosperous Latin America can make to strengthening the U.S. economy. He has also gone on record as favoring the development of a new hemispheric free trade system as proposed by President Bush. After a June 29, 1993, meeting with Argentina's President Carlos Menem, President Clinton said that once Congress ratifies NAFTA, the United States will want to reduce trade barriers with other countries in the hemisphere; and he specifically mentioned Argentina and Chile as candidates for negotiations.

In terms of concrete actions, the Clinton Administration to date has requested $100 million for the MIF and $78 million for debt reduction as part of its fiscal year 1994 budget submission. But the Administration so far (like the Bush Administration previously) has not presented specifics on how or when it intends to move toward a hemispheric free trade system after NAFTA is completed. While endorsing the substance of the EAI, the Clinton Administration officials have tended to refrain, possibly for political reasons, of from using the term EAI, which is firmly associated with the Bush Administration, as the overriding conceptual framework for their policy towards Latin America.

Implementation of the goals set out in the EAI will depend critically on the state of the U.S. economy and on economic developments in the region. Full implementation of the investment and debt reduction components of the EAI will require additional congressional authorizations and appropriations. Unless these proposals are viewed as supportive of U.S. economic and foreign policy interests, progress towards full implementation may continue to be slow. Similarly, U.S. policy on moving towards hemispheric free trade will depend first on the response to NAFTA, and then on how hemispheric integration is seen to support U.S. economic and foreign policy interests.

Implementation will also depend importantly on whether the trend in Latin America towards free markets and liberalized trade is sustained. Results three years after the announcement of the EAI are encouraging. Most countries in Latin America are adhering to the path of structural reform and opening up their economies in order to become more competitive in the global marketplace. Inter-regional trade is increasing rapidly as sub-regional economic groupings take hold. Foreign investment is fueling the growth in intra-regional trade, including capital that fled the region during the 1980s. But large portions of Latin American populations continue to live in poverty, thereby serving as a constant threat to the political reforms and more positive economic policies that have made hemispheric integration a possibility.

In short, a number of cross-cutting pressures will affect the future of the EAI. Whether it will be remembered as primarily a rhetorical ploy to ease Latin American concerns that it would be abandoned, or a bold policy design to draw the United States and Latin America closer together, remains to be seen.

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Annex 1. LATIN AMERICA & CARIBBEAN BILATERAL DEBT WITH THE UNITED STATES

(millions of U.S. dollars; as of December 31, 1990)

Region / Country	AID	PL-480	CCC	EXIM	Subtotal	TOTAL**
Mexico	20	0	415	1,187	1,622	1,625
South America	2,704	512	315	2,449	5,980	6,180
Argentina	36	0	0	465	501	524
Bolivia	331	***111	0	33	505	536
Brazil	966	49	152	1,304	2,471	2,496
Chile	304	*45	68	29	446	447
Colombia	499	2	0	497	998	1,003
Ecuador	109	18	0	341	161	223
Guyana	73	32	0	9	114	117
Paraguay	32	2	0	0	34	36
Peru	318	221	95	54	688	732
Uruguay	36	0	0	6	44	46
Venezuela	0	0	0	18	18	20
Central America	1,520	719	2	53	2,294	2,494
Belize	26	0	0	0	26	31
Costa Rica	331	127	0	32	490	498
El Salvador	274	368	0	0	642	755
Guatemala	179	101	0	0	280	304
Honduras	324	106	0	3	433	447
Nicaragua	205	17	0	12	235	252
Panama	181	0	2	6	189	207
Caribbean	813	619	172	297	1,901	1,983
Anguilla	0	0	0	0	0	2
Antigua & Barbuda	15	0	0	1	16	21
Bahamas	0	0	0	0	0	0
Barbados	7	0	0	0	7	7
Cuba	0	0	0	36	36	36
Dominican Republic	321	209	119	87	736	782
Grenada	0	0	0	0	0	2
Haiti	16	108	0	9	133	134
Jamaica	443	*54	53	50	848	873
St. Kitts & Nevis	10	0	0	0	10	10
St. Vincent	1	0	0	0	1	1
Trinidad & Tobago	0	0	0	114	114	114
TOTAL LATIN AMERICA & THE CARIBBEAN	5,057	1,850	904	3,986	11,797	12,283

* Chilean and Jamaican debt reduced to $45 million and $54 million, respectively, under bilateral debt reduction agreement.

** May Not add due to rounding and miscellaneous programs.

*** $103 million of this was not eligible for EAI reduction since it is to be paid in local currency; the remaining $38 million was reduced under EAI provisions to $8 million. Adding balance of $103 million already due in local currency yields $111 million total.

Source: U.S. Treasury Department

Annex 2. ENTERPRISE FOR THE AMERICAS INITIATIVE: SUMMARY OF DEBT REDUCTION AGREEMENTS TO DATE

(through January 15, 1993)

Country	Debt	Signature Date	Original Debt	Amount Reduced	New EAI Debt	EAI Local Fund
Argentina	A.I.D.	01-15-93	$38.1 mil.	$3.8 mil.	$34.3 mil.	$3.1 mil.
Bolivia	P.L. 480	08-22-91	$38.4 mil.	$30.7 mil.	$7.7 mil.	$1.8 mil. + $20 mil. bond*
Chile	P.L. 480	06-27-91	$39.0 mil.	$15.9 mil.	$23.0 mil.	$1.4 mil.
	A.I.D.	12-15-92	$147.0 mil.	$14.7 mil.	$132.0 mil.	$17.3 mil.
Colombia	A.I.D.	12-15-92	$310.0 mil.	$31.0 mil.	$279.0 mil.	$41.6 mil.
El Salvador	P.L. 480	12-15-92	$335.0 mil.	$268.4 mil.	$67.0 mil.	$25.6 mil.
	A.I.D.	12-15-92	$279.0 mil.	$195.5 mil.	$84.0 mil.	$15.6 mil.
Jamaica	P.L. 480	08-23-91	$271.0 mil.	$216.7 mil.	$54.0 mil.	$9.2 mil.
	A.I.D.	01-15-93	$134.4 mil.	$94.1 mil.	$40.3 mil.	$12.3 mil.
Uruguay	P.L. 480	12-15-92	$1.0 mil.	$400 thous.	$600 thous.	$93.4 thous.
	A.I.D.	12-15-92	$33.4 mil.	$3.3 mil.	$30.1 mil.	$6.1 mil.
TOTAL			$1.63 bil.	$875.0 mil.	$752.0 mil.	$154.0 mil.

* The Government of Bolivia has issued an additional ten-year $20.0 million bond to be deposited in the EAI account in the National Fund for the Environment.

Source: U.S. Treasury Department

Annex 3. FRAMEWORK AGREEMENTS

The United States has signed 16 bilateral/plurilateral Framework Agreements on Trade and Investment with 31 Latin American/Caribbean countries:

Country	Date Signed	Consultations Held/Planned
Mexico	prior to EAI	Many since mid-1980s
Bolivia	prior to EAI	9/90, 10/91, 10,92, 11/93
Colombia	July 1990	10/90, 8/91, 7/92, 6/93
Ecuador	July 1990	1/91, 3/92, 4/93
Chile	October 1990	11/90, 6/91, 12/91, 6/92, 6/93
Honduras	November 1990	7/91, 3/92, 5/93
Costa Rica	November 1990	3/91, 10/91, 7/92, 7/93
Venezuela	April 1991	9/91, 4/92, 4/93
El Salvador	May 1991	11/91, 3/92, 3/93
Peru	May 1991	2/92, 6/93
MERCOSUR*	June 1991	11/91, 5/92, 5/93
Nicaragua	June 1991	11/91, 1/93
Panama	June 1991	1/92, 1/93
CARICOM**	July 1991	4/92, 2/93
Guatemala	October 1991	1/92, 2/93
Dominican Republic	December 1991	9/92, 9/93

* The South American Quadripartite Common Market (MERCOSUR) -- Brazil, Argentina, Uruguay, Paraguay.

** Caribbean Common Market (13 English-speaking Caribbean nations) -- Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad & Tobago.

Source: U.S. Commerce Department