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UNITED STATES - SOUTH AMERICAN

TRADE LIBERALIZATION PROSPECTS

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EXECUTIVE SUMMARY

The United States should adopt a more open trade policy toward South America.

1. <u>Hemispheric trade liberalization is in the best interest of both the United States and the South American republics.</u>

More open conditions for trade in the Western Hemisphere will enable the United States to increase exports, create jobs for American workers, and lessen uncertainty over the repayment of the substantial loans U.S. banks have made to South America.

For South America, trade liberalization will mean greater access to the United States market, further development of nascent industrial sectors, and an improvement in their dangerously high ratios of debt service to export earnings.

All of the American republics will benefit from the noneconomic consequences of freer trade. Given the considerable symbolic value attached to trade relations by our South American neighbors, this policy would do a great deal to ease the strains which have developed in inter-American relations in recent years.

2. <u>The United States market is more closed to South American exports than we often realize.</u>

Despite the fact that the United States has been the principal architect of trade liberalization in the postwar world, our own market remains relatively closed or restricted to many products of interest to South America. Greater access can be given to many categories of South American exports without compromising our existing international commitments, the U.S. balance of payments, or the interests of domestic producers and workers. Since across-the-board liberalization is out of the question for the moment, specific liberalization when possible and a tilt toward South American interests is in order.

3. <u>Significant liberalization of South American import policy is not now feasible.</u>

High debt and a global economic recession put South America in a precarious situation. Specific but limited liberalization to resolve the few current trade complaints for access by American exporters is all that can be expected for the immediate term. A commitment by South America for more complete liberalization when economic conditions permit might be possible (but any government has difficulties undertaking commitments for future administrations).

4. <u>A recognition of the disparate levels of economic development in the Americas must govern the pace and depth of liberalization.</u>

It is accepted that the smaller and more vulnerable South American economies are not yet capable of withstanding the often rigorous demands of a freer world market as well as that of the United States or more advanced countries such as Brazil, and should not be expected to. The differences among the various South American economies in size and sophistication are being taken into account. However, despite suggestion for graduation, the fact remains that even the prime candidates for graduation (Argentina and Brazil) have serious economic problems and are a way off from attaining the level of development of the developed countries of the hemisphere.

5. <u>Trade liberalization will require the full support of all domestic groups, public and private, which have an interest in it.</u>

All aspects of U.S. trade policy which have an impact on South America should be carefully reviewed with a view towards accommodating our neighbors' interests. This also means a strong White House commitment to work with the State Department, Commerce and USTR to assure progress on the political level. Key Members of Congress -- the leadership and liberal trade elements in the trade and foreign affairs committees -- should bring their influence to bear. Private sector groups which stand to gain from freer trade in general or with South America specifically should be organized in a strong domestic coaltion for this new policy shift.

Recommendations:

The United States should:

(1) undertake a comprehensive review of its current import measures to take South American needs into account and consider those needs fully in future import policy decisions;

(2) expand GSP benefits for South America for at least the immediate future, including reduction in the graduation requirements imposed today;

(3) demonstrate greater flexibility in the administration of unfair trade laws to allow legitimate practices of developing countries;

(4) show greater support for South America in U.S. commodities policy;

(5) avoid the use of trade sanctions against South American products as leverage to resolve non-trade problems, and

(6) establish an independent board, composed of citizens from the United States and affected South American countries, to review GSA disposal policy.

The United States and South America should also cooperate in the following ways:

(1) modify and revitalize the Special Committee for Consultation and Negotiation (CECON) of the OAS;

(2) define "unfair" trade practices and the principle of graduation;

(3) undertake meaningful consultations on the future of GSP; and

(4) develop rules for negotiations which take South America's economic problems into account, but also respond to U.S. political necessities.

SUMMARY & CONCLUSIONS

The Gains from Trade Liberalization. All of the American republics* have gained and stand to gain more from increased trade. Further liberalization of trade will make this possible.

For the United States, freer trade in the Western Hemisphere will mean increased exports, more jobs for American workers, and less uncertainty over the repayment of loans U.S. banks have made to South America.

For South America, freer trade in the Western Hemisphere will mean greater access to the United States market, further development of nascent industrial sectors, competitive stimulus from imports and an improvement in dangerously high ratios of debt service to export earnings.

The region as a whole will benefit from the noneconomic consequences of freer trade. Given the considerable symbolic value attached to trade relations by South American neighbors, this policy would do a great deal to ease the strains which have developed in inter-American relations recently.

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*This paper only considers South American relations although many of its recommendations for increased hemispheric understanding obviously apply to both Mexico and the Caribbean Basin. U.S. relations with the Caribbean Basin region are being addressed by the Caribbean Basin Initiative legislation. This paper does not address the question of whether U.S. policy toward Mexico is better approached in a bilateral or a hemispheric context. U.S. policy in any event must decide how to include the Caribbean Basin and Mexico in an overall hemispheric strategy.

Trade Relations are Now a Source of Discord. Trade consultations between the United States and South America are currently unproductive and confrontational. Each side has taken intransigent positions concerning the "unfair" nature of the other's trade policy. The South Americans demand greater and more stable access to the U.S. market and a better balance of trade accounts. The United States asserts that its market is open and that South American demands for a more equitable trade balance will be served by waiting for recovery of the U.S. economy and by eliminating grossly inefficient trade barriers in their own countries.

Similarly, the United States complains that South American markets are closed to many of its exports. But despite the fact that all South American countries except Chile are unquestionably more protective than the United States, few specific trade complaints are on record against South American import policy by the American private sector. The only significant exception to this generalization may be Brazil, but even here the number and stridency of Brazil's complaints against the United States are of greater number and more serious magnitude than those of the United States against Brazil. U.S. concerns with Brazil may be grounded less in actual trade damage from Brazil's protectionism than from U.S. fear that Brazil is following the Japanese ("infant industry") model of developing competitive industries behind impenetrable trade barriers.

The absence of constructive trade consultations creates a conspicuous gap in the network of inter-American relations. The situation is in sharp contrast to hemispheric political and security affairs, in which productive consultations are regularly convened under the auspices of well-established regional institutions. It also compares unfavorably with the ongoing and normally constructive dialogue which the United States maintains with its industrialized trading partners. There are no institutions in the Western Hemisphere comparable to the OECD or the regular multilateral summits of the industrialized nations.

Different Perspectives on Trade. There are two principal reasons why U.S.-South American trade consultations have not developed successfully: (1) differing perspectives between the United States and South America on the role of trade; and (2) the unwillingness of either side to seriously consider policy modifications in light of the complaints of the other side.

Since it is unlikely that the South American nations will take the initiative in proposing solutions, the United States must make the first move. It would be counterproductive, however, for the United States to spring a dramatic announcement of an initiative. Conspicuous proposals are likely to elect an automatic chorus of opposition from South America. Instead, informal exploration and quiet approaches are a more effective way to proceed. Any viable solution must be based upon a regional consensus and a mutual commitment to multilateral problem solving.

The United States has viewed trade from the perspective of a global power, emphasizing the advantages of liberal and non-discriminatory trade as well as the obligations of all countries participating in the international trading system. South American nations view trade from a developing country perspective, emphasizing inequalities in the global economy and the need for the

United States to provide special and more favorable treatment for South America. In their view, it is inappropriate for the United States to demand reciprocal or even modestly compensatory concessions in return.

With each side holding strongly to these positions, it is not surprising that neither side is willing to modify their policies in response to hemispheric requests. However, even if the United States executive wished to undertake efforts to respond favorably to South American requests, domestic pressure would make significant liberalization impossible. Similarly, development and political pressures within South America make favorable response to U.S. requests impossible.

The degree of South American protectionism is recognized by both the United States and South America. However, American officials do not recognize the depth of their own protectionism toward South America. The fact is that the U.S. market is not as open to South American exports as we commonly believe. Despite our position as the principal postwar architect of the relatively liberal global trading order, our markets are restrictive for many products of interest to the region. Of the leading 100 exports from South America to the United States, more than half face serious obstacles to market access. Brazil is the most advanced developing country is the hemispheric. The tariff on duitable Brazilian products imported into the United States in 1981 amounted to 8.3 percent, compared to 5.3 and 6.7 percent for our imports from the European Community and Japan respectively. As other countries upgrade their exports to the Brazilian level, they can expect similar treatment.

The Stalemate Should End. The "dialogue" cannot be imposed as long as each side is interested more in winning debating points than in seeking an accommodation based on the common benefits to be gained from trade liberalization. It is in the mutual interests of both the United States and South America to end this sterile debate and move from confrontation to cooperation.

CECON as an Appropriate Forum. The absence of constructive trade consultations between the United States and South America has not been due to lack of an appropriate institutional framework. The Special Committee on Consultation and Negotiation (CECON) of the Inter-American Economic and Social Council of the Organization of American States (OAS) has been in existence for over a decade. CECON was established in order to revive flagging efforts at inter-American economic cooperation, but it languished in the harsh economic environment of the 1970s.

If South America and United States concurred, CECON could be transformed from a confrontational "talkshop" to a productive workshop for the resolution of trade problems in the Western Hemisphere. Using the OECD as a model, this agency could also be used to reach common hemispheric positions on such issues as the proper operational definition of an unfair trade practice, a more consensual approach to the formulation of the United States' GSP policy, hammering out an hemispheric understanding for such North-South issues as graduation and reciprocity, developing a common outlook toward new international issues in services and investment, and presenting a united front in negotiations with Europe and Japan over their protectionist barriers. Understandings could also be sought concerning some of the basic differences between the United States and the most advanced developing countries in South America, particularly Brazil (for example, with respect to the relationship of industrial policies in the newly industrialized countries to their responsibilities in the trading system).

In addition to CECON, the United States also participates in a number of bilateral trade commissions with key South American nations. In some instances, these entities may prove to be more efficient and appropriate mechanism than multilateral discussions.

A South American "Tilt" in U.S. Trade Policy. Flexibility in U.S. trade policy is constrained by the fact that the U.S. Constitution gives Congress the power to regulate foreign commerce. Congress delegates trade policy authority to the Executive Branch, but severely circumscribes that authority. Significant changes in policy therefore require changes in law, a cumbersome process under the best circumstances. In the current environment of high unemployment, record trade deficits, an overvalued dollar, and intense import competition in major sectors of U.S. industry, passage of legislation with significant liberalization of trade would be impossible. Realistically, only a subtle shift or "Tilt" of U.S. trade policy favoring South America utilizing Executive Branch discretion and minor legislative modification is possible.

Other industrialized nations provide some form of preferential treatment for Third World countries with which they enjoy special relationships. Europe discriminates in favor of most African countries; Japan pays special attention to ASEAN nations, particularly in aid and investment areas. By acknowledging in U.S. foreign economic policy the special relationships that exist in the Western Hemispehre, the United States would merely be following well established precedents.

Elements of such a tilt should include:

(1) Review of the U.S. import regime, with a view toward maximizing access for South American products.

(2) Allow South American countries to delay implementation of any concessions it grants the United States in trade negotiations at least until their financial situations improve.

(3) Expand GSP benefits for South America in 1984, by broadening product coverage, reducing competitive need exclusions, and delaying graduation.

(4) Provide more flexibility in administering unfair trade statutes against legitimate and economically justified South American practices. Modify U.S. policy which insists upon phase-out of direct export subsidies that are justified on development grounds.

(5) Reduce opportunities for "multiple jeopardy" cases against imports through legislative changes.

(7) Abandon the U.S. practice of imposing trade sanctions against South America in non-trade disputes.

(8) Review U.S. commodity policies, particularly on allocation of market shares in commodity agreement.

(9) Establish an independent advisory board to advise on the effects on international commodity prices of GSA disposal policies.

If a decision is made to proceed with the tilt, South America and the United States must agree to enter into a meaningful dialogue to implement it. It is at this point that a decision would have to be made as to whether the OAS, an ad hoc forum or bilateral mechanisms would be most appropriate.

INTRODUCTION

> "The more advanced developing nations which already benefit from the international economy need increasing access to markets to sustain their development."

President Reagan's opening statement at the Cancun Summit, 1981.

U.S. Trade Policy. The United States advocates liberal trade for two fundamental reasons. The first is economic. the evidence is clear that expanding trade has been engine of economic growth for all countries, that it has promoted greater efficiency in the use of the world's scarce productive resources, and that it has produced a higher level of income and welfare.

The second reason for U.S. advocacy of liberal trade has been a strong belief in the value of peaceful exchange and cooperation. American policymakers have long viewed trade as contributing to international peace, believing that the international economic cooperation and prosperity engendered by it make for a more stable world. This has been particularly true in our relations with other American Republics. Secretary of State James G. Blaine, the founder of the Pan-American movement, saw economic cooperation and regional peace as wholly inseparable goals.

Both the economic and noneconomic benefits from trade are of high importance in United States trade relations with South America. The United States' South American trading partners attach great symbolic value to trade relations, particularly the access they are provided to the U.S. market. The intangible perceptual factors which are so important to productive inter-American relations are less immediately apparent than the demonstrable economic benefits of liberal trade, but they are no less real.

<u>The Third World and International Trade.</u> The difficulties inherent in creating a global trading order composed of nations of widely disparate levels of economic development were evident from the start of the process in the 1940s. The General Agreement on Tariffs and Trade (GATT) was originally intended as a temporary institution which would operate until the International Trade Organization's (ITO) charter was ratified, but the opposition of about 30 delegates from less developed nations (especially Latin American) -- combined with the U.S. Senate's refusal to ratify the charter -- killed the ITO. The "temporary" GATT has continued to function in the ITO's absence, but the incorporation of an ever-growing number of independent and vocal Third World nations has been one of the key elements pushing the GATT beyond its original capacities and expectations.

In the 1960s, the Third World nations evolved into a force to be reckoned with in the GATT and other international institutions. Following a series of international conferences and increasing pressure on the United States and other industrial nations, the United Nations Conference on Trade Development's (UNCTAD) demands for preferential and differential treatment for the Third World were partially met through a GATT waiver excluding developing countries from the unconditional most favored nation (MFN) treatment in certain tariff matters. This treatment was embodied in the

Generalized System of Preferences (GSP) adopted by all industrialized countries and even some socialist countries in the 1970s. Under the GSP program, developing country exports may be granted lower tariff rates in developed country markets. The United States system (incorporated in the Trade Act of 1974), allows duty free access for nearly 3,000 products under carefully circumscribed conditions.

The Tokyo Round Multilateral Trade Negotiation (MTN), concluded in 1979, was judged a failure by most developing countries despite the fact that it embodied a certain amount of more favorable treatment for developing countries in the non-tariff areas. Their criticisms focus on the large number of exceptions to any tariff reductions, the less-than-formula tariff cuts on many products of interest to them which do not benefit from GSP, the reduced margins of preference on most GSP products, the failure of the MTN to focus on the issue of tariff escalation, the failure of negotiators to develop stricter rules on safeguards, the absence of meaningful limitations of American countervailing actions against developing country's subsidies, and the failure of the MTN to address textile trade problems. More recently, the growth of protectionism (e.g., in textiles, steel and automobiles), caused in large part by the current world recession, has demonstrated to many LDCs how flimsy the MTN accomplishments were. The November, 1982 GATT Ministerial did little to build confidence among the LDCs the industrialized countries management of the trading system.

South American Trade Policy. South America's criticism of the global trading order began in the early post World War II years.

Then and since, the United Nations Economic Commission for Latin American (ECLA) has championed the argument that the inequities of trade between the nations of the "metropolis" and the "periphery" (developed and developing countries) cause the latter suffer from an attenuating dependency relationship, deteriorating terms of trade, and the inability to embark upon a path of sustained industrialization. ECLA has long advocated industrialization as the best way to escape from these problems.

Although industrialization is considered synonymous with development in most South American countries, strategies for achieving it have changed over time. Import substitution was in vogue for some time, but insufficient economies of scale, low skill levels, an absence of competition, and the inadequate size of domestic markets combined to cause this approach to fail. Regional organizations aiming at some form of economic intergration, such as the Latin American Free Trade Area (LAFTA) and the Andean Pact, were intended to overcome these defects by expanding the scope of the markets. National rivalries and poor leadership limited the success of these initiatives. (See Appendix I, "South American Trade Associations.") Public enterprises, prohibitive duties and quotas, subsidies, and artificial or two-tiered exchange rates have all been employed to reduce imports and promote growth through import substitution in these regional groupings.

Just as import substitution was largely discredited, the subsequent strategy of export-led growth has also failed to achieve its goals. In general, South America (with the exception of southern Brazil) has not been able to compete with the Far East in penetrating developed country markets with industrial products. On the other hand, protectionism in many developed countries, caused largely by competition from Far East exports, has limited market access for many new products from South America.

The unfortunate situation is that the recession in the Western world has caused a sluggish demand for South American exports, and increased demands for protection from them. Large debt burdens, with high servicing costs, eat up increasingly larger proportions of the export revenues -- preventing the import of products needed for modernization and increased productivity.

South America may muddle through, but only at the expense of the standard of living of the poorest sector of the region, and by cutting back imports (principally from the United States). The latter will conflict with the United States' interests in open markets and trade liberalization.

Outline of Paper. This paper will describe the role of inter-American bodies for trade consultations, conditions of market access for products from South America and the United States in each others markets, and the effect of South America's large debt burden on trade policy. It will suggest specific steps which can be taken to liberalize hemispheric trade through a "tilt" in U.S. policy favorable to South America. If will also propose an improved hemispheric mechanism for consultations and dispute settlement and the possibility of regular hemispheric economic summits, similar to those among developed countries. Finally, it will describe the necessity for developing support of these steps both within and outside of the U.S. Government.

CECON: A POSSIBLE FORUM FOR RECONCILIATION AND TRADE LIBERALIZATION

Origins and Purposes of CECON. CECON (the Special Committee on Consultation and Negotiation) is the principal forum for consultations on trade issues in the Western Hemisphere. It is a subsidiary agency of the Organization of American States (OAS). Unlike the Association for Latin American Integration (ALADI) and the Andean Pact, which are associations of purely Latin American membership, CECON is a hemispheric group in which the United States is a key participant. It was established in 1970 under the auspices of the Inter-American Economic and Social Council (CIES) in order to revive the flagging efforts in inter-Americn development cooperation. The Alliance for Progress had raised high expectations but, by the end of the 1960s, these were left largely unfulfilled and frustration was growing. It was hoped that through a cooperative effort to open U.S. markets to Latin and Caribbean exports, the dynamics of freer trade would fuel development.

CECON was formally established by OAS Resolution REM-1/70, adopted by CIES at its Eighth Special Meeting (Caracas, 1970). The fundamental principles of CECON are:

(1) recognition of the asymmetry of the relations between the United States and the Latin American and Caribbean member states;

(2) existence of bloc negotiations with Latin America and the Caribbean on one side and the United States on the other;

(3) nonreciprocity in concessions; and

(4) an emphasis on trade rather than aid as a fundamental element in external cooperation.

In its principles, CECON differs greatly from most OAS subsidiary agencies. Whereas most OAS bodies are founded upon the principle of the juridical equality of the member states, CECON's structure and purposes recognize the manifest economic inequality that exists between the United States and its OAS trading partners. At the heart of the system is a two-tiered division between the United States and the Latin nations. Rights and responsibilities are neither equal nor reciprocal.

The main activities of CECON are conducted through annual meetings, ten of which have been held since 1970. In addition, provision was also made in REM-1/70 for Special Meetings and Meetings of Consultation, when requested by member states. Five Special Meetings have been held, two to deal with U.S. trade measures, two with Panama Canal tolls, and one with CECON rules of procedure. Meetings of Consultation have been called on twelve occasions, the majority of them dealing with specific Latin American complaints regarding U.S. imports regulations of such products as sugar, footwear and beef.

Two Ad Hoc Groups -- one on Trade and the other on Maritime Transportation -- have convened several meetings to discuss issues within their respective jurisdictions. Committees of Government Experts have also been formed to discuss other specific topics such as export promotion and the United States GSP. The structure of CECON also includes a Secretariat, which acts both as a facilitator and as a conduit of statistical and regulatory information.

Development and Disuse. Despite (or perhaps because of) the principles upon which CECON was established, its achievements have not matched the expectations of its founders. Rather than evolving into a productive forum for the negotiation of U.S. concessions to Latin America and Caribbean, more often than not it has been a forum for the latter to vent frustration against what they see as an increasingly protectionist, insensitive and harmful U.S. trade regime, and for the United States to defend its existing policies with little thought to changing them. What was conceived as a center of constructive inter-American dialogue and assistance has instead grown into an arena of frustration and more than a little bitterness.

Disappointment with the achievements of CECON were such that at its ninth annual meeting (1979), participating countries decided to appoint a special group to evaluate the Committee. In the ensuing year and a half, all member nations had the opportunity to present their views regarding the problems facing the Committee. It became apparent that a serious difference of opinion existed between the United States and the consensus view of the South American member countries. In the view of the United States, its own economic standing relative to the other counries had declined significantly since 1970. The United States argued that changing economic realities had put it in a position where it could no longer be expected to grant unilateral concessions as the other member states demanded.

South American nations, for their part, acknowledged that the global economic downturn had adversely affected the United States.

They asserted, however, that they had been hurt even more by it. Their view was (and still is today), that CECON should remain a forum for working out unilateral, unreciprocated concessions by the United States. CECON effectiveness depends virtually exclusively upon the political will of the United States.

For all of the disagreement expressed by the two sides, both recognize that the global and regional economic realities of the 1980s are much different from those of 1970. The spirit in which REM-1/70 was drafted, particularly the "standstill" commitment in U.S. trade restrictions, reflected an economic and political optimism that did not foresee the end of the dollar's convertibility into gold, the demise of the Bretton Woods monetary system, skyrocketing oil prices, and other severe shocks of the early 1970s. The effective result has been that the United States trade policy community does not take the consultation, negotiation and standstill commitments of REM-1/70 into account when formulating trade policy, and there is no specific attention to the effect of U.S. policy on South America.

Why CECON? While it is clear that CECON, as currently constituted, cannot provide answers to hemispheric problems, it is also clear that no other international body exists for addressing the trade problems of the hemisphere.

The GATT establishes rules for the entire international trading system. It is the principal multilateral mechanism in which the United States pursues its goals in international trade issues. One of the principal U.S. objectives in the GATT is to preserve the unique multilateral character of its structure and focus. Regional, including western hemispheric concerns are not a priority.

The GATT in general is not a high priority for South American countries, except when the United States uses GATT rules to justify limitations on imports from South America. One key regional actor, Venezuela, is not even a GATT member. With the exceptions of Argentina, Brazil and Chile, GATT considerations do not weigh at all in the consideration of South American policymakers and GATT representation by these countries of the region is at a low level. Even for these so-called ABC nations, the GATT does not significantly limit policy initiatives. Few South American countries have joined non-tariff codes which are in many ways the most dynamic elements of the GATT. CECON's principles, with its emphasis on bloc negotiations and non-reciprocity in trade, are the opposite of the U.S. interpretation of GATT principles for LDC relations. Finally, the GATT's formality contrasts sharply with the more free-wheeling atmosphere of CECON consultations.

The UN fora are also inappropriate for addressing hemispheric trade problems. The North-South rhetoric which dominates UN and UNCTAD discussions prevents the United States from addressing the concerns of countries. If the U.S. were to attempt consultations or negotiations through these organizations, the confrontational atmosphere would most likely be greater than in CECON. In fact, many South American countries, particularly Brazil, which provide lip-service to these fora, disregard them for serious negotiations. Given the few practical results which can be obtained from utilizing these agencies, they certainly cannot resolve the regional economic problems.

Groups such as ALADI or the Andean Pact are similarly unsuitable as negotiating mechanisms for the pursuit of trade liberalization. The chief deficiency of these organizations is their exclusivity -- the United States is not a member of them, but is already an active participant in CECON. Furthermore, both of these organizations have experienced serious problems in coordination and continuity; these are discussed in Appendix I, "South American Trade Associations." While CECON has not been without its problems, it has been more successful in maintaining its organizational integrity than either ALADI or the Andean Pact.

Can CECON Work? CECON is the most logical and workable choice for developing and implementing general trade principles for the hemisphere, provided that its rules and operating procedures are modified. If the American states were to agree to it, CECON could be revitalized and could even begin to function like an inter-American counterpart to the Organization for Economic Cooperation and Development (OECD) in which the hemisphere could hammer out regional positions on vital trade issues. The OECD often serves as a forum for the building of a consensus among developed countries which can be carried to the GATT or to bilateral bodies for implementation in practical action. In certain instances, actual agreements (e.g., investment, energy, export credits) are concluded within the OECD. Usually these deal with issues for which there is no other appropriate forum.

The British Commonwealth also presents a model after which Hemispheric consultations could be patterned in certain respects. Consultations here attempt to harmonize the views of developed and developing countries. However, there is no ongoing work program comparable to that of the OAS.

The OAS can become an effective body for productive trade consultations only if the United States and South America wish it to become one. For this to occur, both the United States and South America must change their attitudes and policies toward the OAS' trade activities.

For its part, the U.S. posture of defensiveness must cease. For too long the United States has faithfully attended any and all consultations, but has not attempted more than a spirited defense of its existing policies. The United States has not approached them in the true spirit of negotiations. That is what must change.

For their part, the South American participants must give the United States sufficient justification for abandoning its defensiveness by discussing liberalization of their own import regimes and approaching U.S. trade initiatives, both liberal and protectionist, with an understanding of political reality. They must also accept the fact that the United States will have to see more positive action on their part, even if it is only symbolic at this stage, and cease approaching these meetings as opportunities only to condemn American protectionism. There must also be an upgrading of South American representation at these consultations, with negotiators being given sufficient authority to reach substantive agreements. Fundamentally, however, for true progress to be made, all the American republics must eschew confrontation and embrace more pragmatic positions.

An area where CECON and the OAS have not developed initiatives but is presenting a united front against threats to access for hemispheric exports to other markets. For example, neither CECON nor any other OAS body has ever developed a strategy for combatting the protectionist policies of the European Community and Japan. The United States has not actively supported Latin American initiatives against European practices such as limiting "fair" steel imports through voluntary arrangements. Similar, South America has not supported U.S. complaints unless these countries had some direct stake in the matter. The possibility of such mutual support being worked out should also be reviewed in the context of discussions about the future work programs of the CECON.

CECON's operating principles will also need revision if there is to be a new hemispheric commitment to trade liberalization. These should include the following:

(1) A recognition of the disparate levels of development existing in the Americas. This should not be limited to a strict U.S./Latin dichotomy but should distinguish between the degree of development among the South American republics as well. The ALADI three-tiered system (see Appendix I, "South American Trade Associations") offers a useful precedent.

(2) Developed and developing countries in the hemisphere should review North-South issues with a view to developing a consensus which could become the basis for agreements in international fora (GATT, UNCTAD, UN, etc.)

(3) While nonreciprocity should remain a fundamental principle in the immediate future, all member nations should acknowledge the obligation to liberalize trade regimes to the maximum extent consistent with their development needs, and should work in good faith to resolve specific problems of other OAS members.

(4) Trade should be seen as a primary engine of growth for all nations. Aid can play only a secondary role.

Within these principles, it might be possible for CECON to tackle such tough issues as unfair trade practices, graduation, reciprocity, GSP and possibly in the future such new issues as investment and services.

(1) <u>A workable definition of unfair trade practices.</u> Unless and until such an agreement is reached, U.S. and South American trade policy officials will be speaking "different languages" and it will not be possible to reconcile our basic policy differences. Any understanding on "unfair trade practices" must recognize the special problems of our South American neighbors. It must take into account the obstacles to trade that developing countries are attempting to overcome in resorting to these practices to attain their development objectives. Similarly, these countries must be willing to constrain their behavior to accommodate U.S. trade interests and sensitivities. If an acceptable definition can be found incorporating balanced restraint on the parts of both the United States and South America, it should be possible to

incorporate it into U.S. trade laws.

(2) The definition and formula for implementation of graduation. The United States could take the lead in trying to develop graduation criteria acceptable to the hemisphere. It is possible to treat South America more favorably than the Far East without engaging in discrimination inconsistent with the GATT. The major pressure for graduation is aimed at the Far East, not South America. Therefore, one could develop criteria for graduation which would assure more favorable treatment for South America. If the criteria are defined in a way which provides sufficient graduation for the Far East, it would be politically acceptable even if South America was almost completely spared. Criteria which could be selected not affecting South America as much as the Far East could include:

(a) percentage of manufactures in total exports;

(b) share of country in U.S. imports of import sensitive products;

(c) differences in development levels within each country;

(d) debt position; and

(e) percentage of manufactured exports to the U.S. as a percentage of total exports to the United States

In exchange for U.S. accommodation in this area, South American countries should accept the validity of the concept and negotiations should center on specifics. For Brazil, the question may arise sometime this decade. For some others, there could be agreement that this concept is not relevant for many years.

(3) Agreement on U.S. request for "reciprocity": Another issue is the degree to which reciprocity will be an operating principle in negotiations within the hemisphere. Full reciprocity is out of the question. As previously stated, the differing levels of development among the South American states -- and the consequent differing capacities to provide concessions -- must be taken into account by the United States in any negotiations. Nothing would be achieved by a continuation of the sterile confrontation between the United States and South America. Reciprocity in hemispheric trade negotiations should include one or more of the following six elements:

(a) Delaying specific negotiations until after the South American situation improves.

(b) Agreeing on South American concessions but delaying implementation until the situation improves.

(c) Conceding only token liberalization until the situation improves.

(d) Agreeing on the necessary prerequisities for requesting liberalization (foreign exchange reserves, commodity price levels, export earnings).

(e) Agreeing on changes in generic trade policies (general licensing liberalization, raising import quotas, adhering to GATT codes, reducing tariff levels by a given percentage) as opposed to granting product specific concessions.

(f) Providing concessions only for less-developed ALADI members.

(4) Managing the GSP Program. This is particularly timely since GSP is up for renewal by the Congress. While recognizing that GSP is a unilateral, non-reciprocal program, we could develop a common hemispheric understanding on how to (a) increase security for products on GSP, (b) limit the arbitrary and protective effect of competitive need limitation, (c) expand product coverage and (d) incorporate graduation principles.

(5) The hemispheric fora could provide a framework for developing an understanding between developing and developed countries for these new issues. Since there is no agreement that these issues are ripe for discussion now, consideration could be at a later stage. The hemisphere could become a testing ground for working out solutions to problems with relevance to the whole trading system.

U.S. IMPEDIMENTS TO SOUTH AMERICAN EXPORTS

There is some truth in the contention of South American countries that their exports face increasingly stringent limits of access to the U.S. market, especially for those products which compete with U.S. production. On the other hand, South American exporters have not taken nearly as much advantage as other exporters of the access the United States does provide for foreign products.

This chapter analyzes the issue of access to the U.S. market from five perspectives: average tariff levels, non-tariff barriers including the U.S. procedures for import relief, the administration of the Generalized System of Preferences (GSP), other restrictions, and an analysis of the import regime covering the hundred leading Latin American exports to the United States.

Other explanations for South American export problems. At the outset, however, it must be acknowledged that factors other than American trade barriers often have a greater impact limiting South American exports to the United States than does U.S. protectionism -- a point argued by United States trade negotiators. The Latins are not generally willing to admit this. They tend rather to argue doggedly that protectionism is still the principal obstacle. Among the constraints pointed to by the United States are:

(1) the inability of Latin American producers to compete successfully with Far East suppliers of manufactured products;

(2) the recession in the developed world;

(3) competition from new, low-cost African and Asian suppliers

of commodities and raw materials;

(4) failure to maintain consistent product quality once a market has been developed;

(5) labor unrest and other supply constraints;

(6) discouragement of foreign investment, resulting in reduced production and marketing skills.

The fact that Far East exports of manufactures to the United States have increased significantly in recent years while South American exports have stagnated demonstrates that South America's trade performance problems are not due simply to a skewed trade system. Far East exports are often subject to actual or threatened barriers more severe than those to which South America are subject. Moreover, the range of Far East manufactures is much more extensive than that produced by South American countries. Even among the leading South American consumer and capital goods exports, Far East suppliers have a larger market share in the United States than South American suppliers.

Average Tariff Levels. The average* paid an average duty on dutiable imports into the United States from South America in 1981 was 5.08 percent. Dutiable imports from developed countries paid only a slightly higher rate: 5.7 percent. This small disparity is surprising since developed countries did not have large amounts of low duty commodity imports. South American manufacturers did not receive more favorable treatment in the U.S. market than their competitors in developed countries did.

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*This average appropriately excludes Venezuela since Venezuela is a large petroleum shipper.

Brazil, which is the most industrialized economy in South America (and therefore perhaps a forerunner of other countries) paid an average duty of 8.2 percent on dutiable imports. In contrast, Japan and the European Community paid averages of 6.7 percent and 5.3 percent, respectively. (This is not surprising when one considers that in past trade negotiations, Japan and the European Community had more clout than Brazil in obtaining tariff reduction on products of special interest to it.) As other South American countries develop, it is likely that they will encounter a tariff profile similar to that now faced by Brazil.

The nominal tariff rates tell only a part of the story, for the effective tariff rates can often be significantly higher. The following table illustrates this fact:

U.S. Protection Against Primary and Processed Materials
(After the Kennedy Round MTN, in %)

Degree of Processing	Nominal Tariff	Effective Tariff
Phase 1	3.9	3.9
Phase 2	7.3	14.7
Phase 3	7.6	20.6

Source: A. Yeats, Trade Barriers Facing Developing Countries, London (1979) pp. 83-89

It is notable that the gap between nominal and effective rates widens as the degree of processing increases. This clearly illustrates that the U.S. market is more closed to higher value-added goods than for primary materials, a fact that is detrimental to the modernization plans of South American nations.

Non-tariff Barriers (Escape Clause and Unfair Trade Practices)

South American countries argue that the United States' regime of import relief laws are an increasingly restrictive obstacle to their exports. They claim the U.S. petition system encourages complaints against imports and that even unsuccessful petitions discourage competitive exports from Latin America. While a petition is being considered, U.S. buyers of South American products may look for other suppliers to avoid reliance upon imports which might be limited by quotas or be subjected to the imposition of penalty duties. There is no penalty for frivolous or otherwise unsuccessful petitions. Exporters and importers are further disadvantaged, since they must pay the legal cost of defense against petitions.

There has been an increase in the number of "multiple jeopardy" cases where U.S. domestic interests resort to a battery of consecutive complaints to limit imports of the same product -- which amounts to little more than harassment in the eyes of South American exporters. This can result in maintaining a protectionist threat for years while each complaint is considered. A telling example is the six attempts to limit imports of leather apparel from Uruguay. In 1974, before GSP was implemented, an attempt was made to prevent the GSP designation of leather apparel. After two later unsuccessful attempts to have leather apparal removed from GSP, it was taken off on the third try. In the meantime, there was a successful petition to countervail against Uruguayan exports of leather apparel. Most recently a petition failed to obtain escape relief for the product, although the USITC did find injury. The net result was that Uruguayan exports remained under constant threat for eight years, relief was eventually granted, and exports fell significantly. The costs of both uncertainty and legal representation borne by the Uruguayan exporters were heavy.

The third problem is that there is no international consensus over what is an actionable unfair trade practice. Both the GATT subsidy code and economic development theory recognize that certain export subsidies are legitimate tools of development if appropriately applied, and these should only be offset by countervailing duties if they are causing injury to producers in the importing country. The United States executive, largely due to union-induced congressional pressure, maintained for many years that direct subsidies constitute unfair practices per se and should be countervailed against without any injury finding. Current U.S. trade policy allows the granting of an injury test on most products from developing countries only if the developing country agrees to phase out all direct export subsidies, without reference -- as GATT rules and economic theory consider -- to whether these are consistent or inconsistent with development needs. If the South American country does not enter into such a subsidy phase-out commitment, the United States will countervail against subsidies which have an effect on exports whether they are direct export subsidies or not.

In recent cases against Mexico, the Commerce Department found that the Mexican export credit program and regional promotional programs were countervailable even though almost all countries (including the United States) provide similar aid. South American countries either eventually enter into phase-out agreements with the United States under such pressure or find their exports subject to countervailing duties. Brazil and Uruguay have entered into agreements. Colombia and Argentina have not and hence are subject to countervailing duties without an injury test.

A case against Peruvian textile exports illustrates the reasons behind South American. The implications of the cases on cotton and sateen fabrics are noteworthy, because they resulted in the highest countervailing duty levied against any country's export (over 40 percent) and because the failure of the United States and Peru to resolve their dispute led to cancellation of a visit to the United States by Peru's president in November, 1982. The countervailing duty was levied without an injury test and the visit was cancelled because the United States would not accept a compromise agreement that would have reduced Peru's ability to subsidize because it reportedly failed to include as stringent a phase-out schedule of the subsidies as the United States wanted.

What is most noteworthy is not the failure to reach an agreement, but that the United States was insisting that Peru -- a mid-level developing country -- eventually completely eliminate its direct export subsidies, a commitment not obtained from other middle level developing countries such as India and Pakistan with which the United States <u>has</u> entered into agreements. Finally, the fact that the dispute occurred in the textile area was particularly unfortunate since the United States can limit disruptive imports by unilateral action or bilateral agreement under the MFA. Peruvian textile exports were not considered a threat to the U.S. industry as indicated by the fact that the United States never requested a bilateral agreement.

South American countries maintain that U.S. actions which restrict trade, whether against <u>fair</u> or <u>unfair</u> export practices, should be considered protectionist. As of October, 1982 the following countervailing duties were in effect against South American exports:

Textiles and apparel - Argentina
Nonrubber footwear - Argentina and Brazil
Castor Oil - Brazil
Scissors and shears - Brazil
Cotton Yarn - Brazil
Iron - Brazil
Handbags - Uruguay
Leather Apparel - Uruguay and Argentina

Antidumping duties are in effect against printed vinyl film from Brazil and Argentina, and countervailing duty cases are currently pending against a wide variety of Brazilian steel products and orange juice.

The new unfair trade practice provision of U.S. law, known as Section 301 (added to the 1974 Trade Act) gives petitioners the right to request relief from unfair trade practices not covered under other U.S. statutes. These trade practices are defined as actions which are inconsistent with trade obligations or are otherwise unjustifiable, unreasonable or discriminatory and burden or restrict U.S. Commerce. Currently, there are three pending 301 cases against South American products:

Steel sheet - Brazil

Footwear - Brazil

Leather - Argentina

Between 1972 and the end of 1982, a total of 45 complaints were lodged against South American exports to the United States. More than 80 percent of the cases were initiated in the last five years. Of these complaints, 36 compliants were against alleged unfair trade practices and 9 complaints were against injurious imports under the escape clause provision (Section 201). Of all the complaints, 14 were decided in favor of the petitioners, 16 were decided against them and 14 are still pending.

There are three escape clause actions in effect which limit South American exports to the United States. These include temporary higher duties being levied on ferrochromium and enamel cookwear from Brazil, and canned mushrooms from Chile and Peru. In all cases the South American nation was a minor supplier, and an exemption from the import relief would not have undercut the effectiveness of the relief in protecting United States industries. It would have allowed exports to continue flowing unhindered from South America into the United States.

South American complaints of restricted access to the U.S. market, while they have some merit, are nevertheless overstated. Unlike systems in other countries, including South America, the U.S. system is open and both importers and exporters have the ability to present their side of the case. Although even unsuccessful petitions and restrictive Congressional initiatives discourage trade, there is still a distinction in trade impact between those where trade restrictions are those where restrictions are not imposed. Most complaints do not succeed, a fact demonstrating the overall fairness of U.S. practices.

Another point often overlooked by South America is that the United States market is more open to South American exports than those of other developed countries. In Europe, South American exports must compete against imports from Africa, the Pacific and the Caribbean which benefit from Lome Convention preferences, the levies and subsidies of the European Communities' Common Agricultural Policy, and more quotas and non-tariff barriers than in the United States. The structure of the Japanese market makes it extremely difficult for South American exports, particularly of manufactured products, to compete successfully there.

<u>The Generalized System of Preferences.</u> GSP implementation has remained a disappointment for South America. Both in UNCTAD and GATT, developed countries had agreed to designate almost all developing country imports eligible for GSP. The United States, like other developed countries implementing GSP programs, felt that the competitive position of developing countries and its own domestic pressures prevented it from providing a universal GSP system. It was therefore forced to exempt large numbers of products where developing countries had competitive strength. Safeguard limitations on designated products have also often prevented GSP imports from gaining significant shares of the U.S. market.

GSP exports from Latin America have grown at the same rate as overall U.S. imports, compared to much faster growth of imports from the Far East. Product exclusions have prevented many of the more competitive South American exports from benefitting from GSP. For example, textiles and apparel, footwear and many labor intensive agricultural products have not been designated eligible for GSP. Of the 20 leading dutiable exports from South America to the United States, only six benefit from GSP treatment. However, for five of the six products (two copper products, sugar, corned beef, and fresh cut flowers), the leading South American exporters are excluded. Brazilian exports of castor oil, the sixth product benefitting from GSP, is subject to a countervailing duty. The following South American products among their top twenty dutiable exports are subject to high duties and do not receive GSP treatment -- certain iron and steel plate (7.9 percent), orange juice concentrate (51.9 percent), cut emeralds (10.0 percent), leather footwear (8.6 percent), solid state radios (10.1 percent), and scrap tobacco (11.4 percent).

The exclusion of South American and Mexican products from preferential treatment because of the application of the competitive need and value added provisions has been a more significant factor in restricting imports from South America than for other regions of the world. The competitive need limit requires exclusion from GSP in almost all cases of products from countries whose imports exceed fifty percent of total U.S. imports or a specific dollar value adjusted each year to take U.S. GNP growth into account.* In 1981, 43 percent of otherwise eligible products from South America were excluded under this provision, a higher percentage than from other regions. Similarly, assembly industries (particularly for Mexico and the Caribbean) do not qualify for GSP due to low value added. This is ironic, since very often these industries rely on American production for their raw or semi-finished materials. Often the same product produced in the Far East with no value added of U.S. origin will qualify for GSP.

In addition to the uncertainty caused by applicability of competitive need limits, the Office of the United States Trade Representative (USTR) that administers the program, considers petitions of products removal once a year. Products important to Latin America but removed from GSP through this process include

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*In the year beginning April 1, 1983, the figure will be $53.5 million.

both leather apparel and pig leather. Products are also automatically removed from GSP if escape clause relief is granted, even if the GSP imports were not the cause of the injury.

The point of this analysis is not to deny that the United States has tried, within the legal constraints of this program, to be forthcoming to South America in the GSP system. Of the 83 petitions from South America to add products to the annual GSP review initiated in 1975, 33 (or close to 40 percent) have been accepted and another 32 remain pending. However, the petitions which have been accepted for designation are generally for products that are small in volume, are not competitive with U.S. production, or have limited growth potential. The U.S. government has also done an innovative job in devising new tariff classifications or arranging political compromises to allow the designation of such products as certain melons, papaya, jellies, unlined jewelry boxes, various articles of vegetable fiber and straw, locks and pad locks, latch needles and forks. However, political pressure has not allowed the granting of more significant requests such as certain corned beef products, sardines, tuna fish, preserved pineapple, oranges, toothpicks and other wooden sticks, steel products, gloves, textile, resistors and many automotive products.

Despite its shortcomings, GSP is still a significant program for South America. In 1981, over $1.2 billion of imports from South America entered the United States under the GSP program. Excluding sugar and copper products, for which U.S. duties are not significant, only $400 million was ineligible due to competitive need and value added requirements, and 75 percent of eligible products entered duty-free. A particular success story was Venezuela, which only became eligible in 1980, and saw its GSP exports to the United States grow from $12 million in that year to $87 million in 1981.

The future of the GSP program is in doubt. GSP will expire on January 1, 1985 unless Congress renews it. In an atmosphere of high unemployment and strong protectionist pressures the prognosis for renewal is uncertain. This situation may be further exacerbated by presidential election politics.

In this environment, Brazil and Argentina, and possibly Colombia, Venezuela, and Chile may see their GSP benefits threatened by a Congress increasingly intent on reducing the preferential treatment accorded developing countries whose economic status is considered to be "advanced." The Administration has been reluctant to develop a graduation program which allows preference for South American countries justified on their economic and political importance to the United States and their debt problems.

<u>Administrative and Legislative Trade Limitations.</u> In addition to the import relief procedures described above, South American exports are also subject to U.S. legislative and administrative import restraint programs. U.S. quotas limit agricultural imports such as sugar, beef, and dairy products, and textiles are also subject to quotas.

Under the Multifiber Arrangement (MFA), imports from Brazil and Colombia are subject to bilateral limitations. However, the unilateral rights granted under Article III of the MFA force all countries to carefully monitor their textile exports to the United States so as not to increase to a point where they might disrupt the

U.S. market and become subject to unilateral negotiated limitations.

South American complaints in trade extend to other areas not normally considered trade policy and not normally under the purview of the GATT. These include embargoes on tuna exports from Peru and Ecuador in retaliation for the seizure by those countries of U.S.tuna boats. In addition, South America, particularly Brazil, Peru and Chile, objects to the U.S. General Services Administration surplus disposal of such commodities as silver and tin which they believe destabilize prices on the commodity markets. The United States believes these complaints are often more politically than economically motivated, since consultations over disposal matters do take place and the GSA is also interested in high prices.

There is no common South American position on commodity agreements. Commodity agreements are not a major area of Hemispheric disputes. For example, often the major supplier of commodities, such as Ecuador for bananas and Chile for copper, opposes commodity arrangements and therefore support the United States position in these areas. The United States accepts the Brazilian and Colombian roles as the principal arbiters of the Coffee Agreement. Brazil is only a luke-warm supporter of the Cocoa Arrangement, which the United States opposes. Nevertheless, in UNCTAD discussions, all South American countries (with the possible exception of Chile) pay lip service to the Common Fund and expansion of commodity arrangements and differ with the United States.

U.S. Barriers Limiting the 100 Leading Exports from South America Tariffs. If one reviews tariff levels alone, the United States has a relatively liberal regime for the 100 leading exports from South America on a five digit tariff schedule of the United States (TSUS) basis. Thirty-three of the 100 enter duty-free under MFN. An additional 18 enter duty free under GSP for all South American countries. Thus, no duties are paid on a total of 51 of these 100 products.

In addition, 12 products not subject to GSP have duties of less than five percent levied on them. Of the 15 products for which one or more South American countries exceeded or were close to exceeding the GSP competitive need limit, 12 products had an MFN duty of less than five percent. Thus, 75 products of the 100 leading South American exports paid no or only low duties, and only 25 paid a "high" duty (5 percent or more).

<u>High and Low Duties Among 100 TSUS Classifications</u>

Duty Free Under MFN	33	High Duty	21
Duty Free Under GSP for all South American countries	18	High Duty & one or more South American country exceeded or was close to exceeding the competitive need limit	4
Low Duty, Non-GSP	12		
Low Duty & Insecure GSP	12		
	75		25

An analysis of both the tariff and non-tariff regimes covering these 100 leading products indicates more protectionism than is revealed in the forgoing tariff analysis. Five digit TSUS classification in 17 product categories are not subject to significant import restrictions in the U.S. market. For 20 of these TSUS classification in 8 product categories, South America has free access to the United States market. These include coffee and tea (3), cocoa (4), bananas (1), and ores and metals (12). There are also 24 products in 8 product categories where tariffs are zero or small and non-tariff barriers are non-existent: spices (1), plantains (1), nuts (2), apple and pear juice (1), wool (1), baler twine (1), wood products (6), precious stones and jewelry (3), and miscellaneous manufactures (3). (See Appendix III.)

The remaining TSUS classifications (representing 17 product categories) face serious current or potential access problems in the United States, either through high tariffs, GSP removal, relief under fair or unfair trade statutes, legislative or administrative actions or miscellaneous actions (See Appendix IV).

The overview which follows somewhat underestimates the total restrictive effect of U.S. trade policy. Severe U.S. restrictions stymie trade in other products, thus preventing them from being among the leading exports in our study. For example, one would expect that textile and steel products, leather apparel and scissors and shears, to name a few, would be among the 100 leading South American exports to the United States, were it not for the import restrictions placed on them.

Meat (3). No fresh beef can be imported from South America due to health and sanitary regulations against hoof and mouth disease. However, even if the South America could eradicate hoof and mouth diseases, their exports would still be limited by the Meat Import Act. The principal GSP corned beef item is subject to a changing competitive need exclusion, since Brazil and Argentina account for almost 100 percent of the market. (One year Brazil may be off, the next year Argentina.) The MFN duty may be raised from zero to 4.4 percent in light of the termination of the leather agreement with Argentina.

Fish (5). Peruvian and Ecuadorian tuna fish are subject to embargo as a result of a dispute over fishing zones. In addition, health and sanitary complaints pose a continual threat to imports of all fish products.

Citrus (2). Orange juice concentrate is subject to a high specific duty whose ad valorem equivalent varies with the price. In 1982 the average was 51.2 percent. In previous years, when orange prices were lower, the ad valorem equivalent duty was a high as 100 percent. In addition, the Florida citrus industry has brought a countervailing duty complaint against imports from Brazil on which there has been a preliminary finding. Although allegedly aimed at Brazilian subsidies, the impetus for the complaint came from the recent significant increase in imports in the aftermath of a Florida frost.

Lemon oil is subject to a high duty and a possible escape clause action. It is a key by-product of the citrus industry.

Grapes (2). California growers have recently been successful in establishing a domestic marketing order designed to ensure adequate sweetness in table grapes during the marketing season for California grapes by keeping imports without similar sweetness out of the country. The order should have the greatest impact on Mexican grapes as they are marketed during the same season as California grapes. However, the period of the marketing orders could be extended to cover the Chilean season, given the claim by the U.S. grape industry that it has the ability to store grapes for year-round sales.

An attempt to designate grapes for GSP was not successful, although the duty remained at a relative insignificant ad valorem equivalent of 0.7 percent. For the moment grapes are a particularly fast growing export from South America.

<u>Sugar (2).</u> The reintroduction of sugar import quotas in May, 1982 has both helped and hurt South American producers.

On the negative side, with the exception of Peru, FY 1983 quotas have been much less for the leading South American sugar producers than their average 1979-1981 shipments.

<u>U.S. Imports of Sugar</u>

(Metric Tons)

Country	1979-81 Average Imports	FY 1983 Quota	Change
Brazil	976,000	362,000	-63%
Argentina	246,000	107,000	-56%
Peru	74,000	102,000	+38%
Colombia	128,000	60,000	-53%

The lower FY 1983 quota compared to 1979-1981 average shipments also compared unfavorably to an overall 42 percent decrease in imports from all destinations. It compares particularly unfavorably to the 31 percent decline for the leading Caribbean suppliers.

A future U.S. Government study is expected to show that, in general, export earnings in sugar from South American producers were favorably affected by the quotas since the positive price effect more than offset the decline in the quantities shipped. However, when one includes the disruption to employment and production levels, the insufficient storage facilities in producing countries, the stimulative effect on U.S. sugar and high fructose sweetener production, and the depressing effect on U.S. sweetener consumption, a conclusion that the quotas have had a net negative effect upon South America is appropriate.

Tobacco (2). The two leading tobacco products imported from South America are subject to duties of 19 and 11 percent, respectively. The duty burden will be increased if current proposals for certain types of what is now classified as scrap tobacco are adopted.

Fresh Flowers (2). Fresh flowers, one of the fastest growing new South American exports, has been subject to an escape clause petition, orderly marketing negotiations and a countervailing duty petition. Currently consideration is being given to limiting entry of unfumigated cut fresh from Colombia under health and sanitary regulations.

Iron and Steel (5). The OECD steel committee's concern over the existence of excess world capacity, the inclusion as part of the now defunct trigger price system of a mechanism to limit import surges, and the recently concluded bilateral agreements limiting European iron and steel exports to the United States, all indicate that South America and other developing countries will have a tough time penetrating the United States market. Unfair trade complaints have been made against almost all iron and steel products from Brazil (specialty, bar, pipe, strand, rod, sheets, and strips).

Ferro Alloys (2). The principal ferro-alloys are not on GSP and are subject to a 5.0 percent duty. A more serious threat is the attempt by the domestic industry to gain a national security finding on these products which would result in import limitations.

Copper (2). After an unsuccessful escape clause petition, the domestic industry has been pushing restrictive legislation through Congress. Although the leading suppliers are ineligible for GSP treatment due to competitive need limitations, this is not considered a serious barrier since the MFN duty is low.

Chemicals (5). Chemicals, especially petrochemicals, face significant protectionist pressure. Future chemical exports of oil producing countries in South America will come under increased scrutiny to assure that the petroleum inputs are not priced preferentially in comparison to the international market. Ethanol imports are subject to a legislated tariff rate quota with a high duty which impairs an international tariff finding. Petrochemical complaints have been filed against Mexico, which may be a forerunner of complaints against Venezuela. Sodium nitrate from Chile is the target of an anti-dumping investigation.

Textiles and Apparel (5). Cotton, wool and man-made fiber textile and apparel imports are subject to the MFA. Apparel duties generally are in the 20-30 percent range in the U.S. tariff schedule. Also, exports from Brazil and Peru are subject to countervailing duty action.

Leather and Leather Products (7). Manufactured forms of these products generally are not on GSP and are limited by duties ranging from 7 to 20 percent. Until recently, footwear from South America was subject to the anti-surge mechanism in the OMA.

Unfair trade and countervailing duty complaints are either pending in effect against Brazilian exports of footwear and handbags, Argentine exports of leather and leather apparel, Uruguayan exports of leather apparel and Colombian exports of leather apparel and handbags.

Solid State Radios (1). This product is not on GSP and is subject to a duty of 10.1 percent.

Automotive Sector (9). Most products do not benefit from GSP treatment. Since all (original equipment) Canadian automotive products enter the United States duty-free under the automotive pact between the two countries, South American products enter at a competitive disadvantage compared to Canadian products.

More significant to South American growth prospects in this area is the threat posed by protectionist pressure in the United States to limit imports. Local content legislation, requiring a high percentage of value added in cars sold in the U.S. to be of U.S. origin, would interfere with plans for South America to supply part of the world car market. In addition, unfair trade complaint subsidies, and 301 complaints have been threatened against Brazilian exports.

Airplanes (1). As a bargaining lever to obtain access to the Brazilian market for U.S. general aviation manufacturers, the U.S. industry has urged its government to threaten Brazil with delay in FAA certification. In addition, the industry has threatened to file a countervailing duty and section 301 complaint against the exportation of the Brazilian Bandeirante. Aircraft is the fastest growing

growing significant export from South America. In the first eight months of 1982, aircraft exports amounted to $84 million; this was the fourteenth largest South American export compared to only $28 million in all of 1980, when it was the 45th largest export.

SOUTH AMERICAN IMPEDIMENTS TO U.S. EXPORTS

The United States Government has much fewer specific complaints about access to South American markets than South America has about access to the U.S. market.

In fact, with the exception of Brazil, almost the only time the import regime of a South American country has become the subject of serious U.S. concern is during trade negotiations when various U.S. officials actively encourage requests from the private sector to make up part of a U.S. request list.

This is surprising when one considers that the markets in all South America countries -- with the notable exception of Chile -- are much more closed than is the United States market. Duty rates in South America are much higher, and quotas and import licensing restrictions are much more widespread. The Andean Pact countries (Bolivia, Colombia, Ecuador, Peru, and Venezuela), generally do not allow importation of products which compete with internal production. Brazil requires import licensing, restrictions on imports which compete with domestic production, high tariffs, and a prior deposit scheme. Almost all countries have foreign exchange controls limiting imports. On the other hand, Chile relies on a 10 percent across-the-board duty and a strictly enforced and anti-dumping and subsidy statute.

Nearly all current U.S. trade complaints are aimed against Brazil. These are principally limited to a few products of sophisticated technology where Brazil is following an infant industry development strategy or has already achieved an export potential.

There are six principal reasons for the relative dearth of trade complaints by the United States against protective South America trade regimes:

1) U.S. multinational companies, forced to manufacture in South American countries by local content and export requirements, need such protection to shield their inefficient production.

2) U.S. exporters, as a general rule, are not aggressive and do not attempt to sell to markets which are closed. They tend to follow the path of least resistance rather than fight to create new opportunities. They do not have a habit of working with the U.S. government and therefore do not seek the support of their government to remove trade obstacles.

3) U.S. restrictions often represent reductions in current access which affect the status quo. Except for certain Brazilian restrictions which close formerly open markets, South American restrictions have usually been in place for a long period of time and until the recent debt crisis they were being gradually liberalized.

4) The employment and balance of payments pressure are such

that the South Americans view attempts to limit exports as a threat to their economic survival, but these issues are less vital to North American exporters.

5) The United States maintains a favorable trade balance with South America.

6) The United States is a more important outlet for South American products than vice-versa.

BRAZIL

It is a dangerous oversimplification to generalize about a single "South American" trading regime. There is, in fact, much diversity. Brazil is in a class by itself, having characteristics of both a developing country and a potentially tough competitor for the United States in certain sophisticated products. In fact, Brazil alone accounts for the vast majority of U.S. complaints with "South America," due to the threat of increasingly stiff competition with U.S. producers in our own and third country markets.

Brazil pursues a strategy of export-led growth in which it simultaneously protects the domestic market from foreign competition while subsidizing production and exports in key manufacturing sectors. Brazil has achieved some success, particularly in airplanes, locomotives, electronics, and automotive products, but at the cost of serious trade conflicts with the United States.

Two key examples are aircraft and computers:

<u>Aircraft.</u> Until 1974, Brazil had been the United States' best export market for light aircraft. But Brazilian planners targeted this industry for promotion and protected the market for Embraer, a state owned manufacturer. Embraer's Bandeirante has done quite well in the U.S. market, a fact which American manufacturers attribute to direct government export subsidies and the favorable export credits Embraer receives from the Banco do Brasil.

The first attack against these Brazilian exports to the United States was led by Cessna and the General Aviation Manufacturers Association, which objected to the precipitous decline in their sales of finished civil airplanes in Brazil, while the Bandeirante was being introduced to the American market. Brazil argued that its civil aviation policy was in line with normal infant industry development policy, and that without protection its aircraft industry would never mature. It further pointed out that its planes were produced from Piper kits and that Cessna's complaint stemmed from its disappointment in losing out to Piper in supplying kits to the Brazilian market.

Despite threats to do so, the U.S. complaints filed no Section 301 cases but the issue had been a subject of U.S.-Brazilian consultations for many years. On the grounds that there was no material injury, the International Trade Commission also recently rejected Fairchild's demand that a 44 percent countervailing duty be placed on the Bandeirante. Fairchild is now appealing the decision. The aircraft problem is still unresolved but it is possible that a permanent solution may be found centering on some (but still quantitatively limited) access for U.S. exports in the Brazilian market.

Computers. Like aircraft, the Brazilian computer industry has benefitted from a strategy of import substitution and export promotion. The Brazilians have cited national security as a major consideration here, with the control of hardware manufacture and data flow being considered vital security issues by the military government.

Brazil established a new Secretariat for Informatix in August, 1982 which has a mandate to control all aspects of the nation's information processing industry. This will include protection of and subsidization for an infant computer industry. New hardware demand will be filled by domestic producers when possible, despite substantially higher production costs.

There has not yet been a major response from the American computer industry. This is partly due to the short time that has elapsed since the issuance of regulations, but also because several American firms operate in Brazil and benefit from the government's protective umbrella.

Seen from an historical perspective, the U.S.-Brazilian conflict over these and other disputed products appears to spring from an American fear of both the past and the future. Looking backward to the example of Japan, the U.S. hopes that history will not repeat itself with a potential economic giant like Brazil following the Japanese model. Looking to the future, the possibility that Brazil may establish a pattern for other industrializing South American economies presents a formidable challenge to the U.S. ideal of a liberal trading order. For these reasons, Brazil's efforts have been met with stiff U.S. resistance. It remains to be seen whether Brazil will remain the exception to the rule, or whether its example will solidify the unwelcome pattern began by Japan.

ARGENTINA AND COLOMBIA

Argentina and Colombia may also serve as examples for the future which may lead to serious problems over access. Both countries have (until recently), been following liberalizing trade policies. Both have begun to reverse direction. Argentina represents a nation which has been forced to change direction because of situations beyond its control. Colombia's shift springs from political convictions rather than economic pressures.

Argentina has been forced to change due to a confluence of staggering foreign debt, negative economic growth during the second quarter of 1982, high unemployment and mounting inflation. All of these factors militate against a continuation of Argentina's relatively free trading regime. Recently announced austerity programs will help but are unlikely to solve Argentina's crisis, and it is likely that trade policy will be the next target for change.

Furthermore, the present move towards democracy is a highly welcome political development but may have unfortunate consequences for free trade. The junta has committed itself to civilian rule by March of 1984, and it is possible that either the Peronists or the Radicals will come to office. Neither party supports the military government's free trade position and would almost certainly impose even more protectionist policies.

In short, Argentina is now in a delicate transition stage with a uncertain short term future. While a return to prosperity and free trade is quite possible in the longer term, current pressures make further liberalization impossible and greater protection probable.

As in the case of Brazil, the question remains as to whether Argentina will be a trend setter or an aberration. If the United States and other nations assist Argentina in her recovery, an eventual return to free trade precepts is more likely to be in the cards. If Argentina is made to feel that it is isolated and must resort to an indefinite abandonment of liberal trading precepts, other South American nations which find themselves in dire financial straits in the future will have witnessed an unfortunate object lesson.

CHILE AND PARAGUAY

These two nations import regimes are among the world's freest. Imports are unrestricted in Paraguay, with no quotas or required permits. U.S.-Paraguayan trade, however, is minimal. Chile has an across-the-board tariff of only 10 percent (with exceptions for dairy products and automobiles). The U.S. runs a large trade surplus with Chile.

VENEZUELA

Declining revenues in the face of depressed global oil prices led the Venezuelan government to restrict imports in late 1982. The new customs and tariff structure consisted of three decrees which reserved the import of some products to the national government, raised the duty substantially on others, and banned a third category of goods from importation for a period of one year. These changes are nondiscriminatory and are applied even to Venezuela's Andean Pact trading partners.

ECUADOR

As in Venezuela, balance of payments difficulties have led the government of Ecuador to restrict imports. A luxury tax bill imposes 5-25 percent taxes on a wide range of consumer items, and while technically not a customs duty it has virtually the same effect. Deposit requirements have been raised for some imports, and nearly all horticultural imports have been banned. Such regulations have been circumvented in the past by an expanded contraband trade.

PERU

Up until 1980, high tariffs and import restrictions limited the growth of imports in Peru. In 1980, as part of its trade liberalization program, the government reduced the level of tariffs from a maximum nominal duty of 155 percent to 60 percent with an average nominal duty of 35 percent. It also eliminated prior permits and quantitative restrictions on imports. Balance of payments problems may be forcing reversal of this liberalization.

Historically, Peru has maintained regulations on import licensing and has had state control of marketing certain basic products. The licensing regulations are periodically tightened to limit imports by modifying the requirements to require prior licensing.

SOUTH AMERICAN DEBT AS AN OBSTACLE TO TRADE LIBERALIZATION

Introduction. Latin American debt is a key consideration in the liberalization of inter-American trade. The issue has received a great deal of attention lately, given the monetary crisis in Mexico and the post-Falklands troubles in Argentina. While talk of a "debtor's OPEC" among the big three (Mexico, Argentina and Brazil account for $200 billion), or a Western economic collape following massive defaults is surely premature, it is clear that the external debt of the larger Latin American states will be one of the more salient economic factors of the 1980s. Any reasonable trade policy must take this into consideration.

Historical Background. Large external debt is by no means an historical newcomer to the Western Hemisphere, although a crisis of the current proportions is unknown. American policymakers easily forget that the United States was itself a debtor nation until the 1920s, borrowing abroad to fuel domestic economic growth. Canada was even more dependent upon foreign capital in the early stages of its growth.

The larger South American nations have attempted to follow a development pattern similar to that of the two North American republics, but several factors have conspired to severely limit their success. Not the least of these is an unhealthy economic dependence on the export of single commodities whose prices are subject to erratic market forces. This led to disaster during the Great Depression, when the average price of Latin America's primary products plummeted 60 percent in world markets. With export earnings wiped out and debt service ratios skyrocketing, Latin American governments had little choice but to default. By 1932 they had reneged on $2.6 billion in foreign debts.

Causes of the Present Crisis. The central cause of Latin American indebtedness in the 1980s is much the same as it was in the 1930s -- dependence on commodity prices -- but the situation has been ironically reversed. The American republics have generally made good progress towards diversification of their economies in the last half-century and are less dependent on commodity export prices, but in their industrialization they have become progressively more dependent upon imported oil. It was the rising price of this commodity rather than the falling price of export commodities that has been the root cause of recent Latin American debt problems. (This analysis, of course, does not apply to Mexico and Venezuela. Their debt problems are indeed caused by the decline in their export revenues during the current oil glut. Some things never change).

The OPEC oil price increases of 1973-74 were followed by a period of relatively strong economic growth and prosperity, and Latin governments were unwilling until recently to slow growth in order to pay their rising oil bills. A petrodollar recycling process was created in which OPEC surpluses were deposited in international banks, lent to oil-importing LDC's, and finally returned to OPEC as payment for the oil imports. The net result was an escalating rate of increase in the debt levels of non-OPEC LDC's, including Latin America. (See Chart II, "Public External Debt of South America," in Appendix II.)

All appeared relatively well in the mid-1970s despite this growing debt. The international banking community successfully met the recycling challenge. Many LDC's believed that oil prices had stabilized or would even decline in real terms, and more loans were contracted for in hopes of accelerated growth. The Iranian Revolution of 1979 and the subsequent further oil price increases shattered these hopes. The loans of the mid-1970s were made in a period of unwarranted optimism, and now must be paid in a time of growing pessimism.

Defaults: Serious but Unlikely. Talk of possible defaults by the larger borrowers has been common since the oil crisis of 1979. Academic journals, business circles and governments agencies abound with Cassandras foretelling the doom of defaults, with the spectre of hundreds of billions in losses sending shock waves through the world's financial sectors. And they are right in one sense: if a few of these larger borrowers were to default, the consequences would be truly disastrous.

But defaults such as those of the 1930s are unlikely under present conditions. Unlike the debtors of the 1930s, a developing country with debt problems has several policy options short of default. First and foremost, there now exist an array of regional and international financial institutions which can come to the aid of a beleaguered LDC. The International Monetary Fund, the World Bank and the Inter-American Development Bank all stand ready to provide concessionary loans, technical assistance and advice or, if necessary, a forum for rescheduling negotiations. Furthermore, private rescheduling procedures have been developed in the postwar banking community to avoid the chaos of the 1930s.

Perhaps the most important deterrent to default is the very unwillingness of LDC's to take that path. When national solvency goes, so does investor confidence, and LDC's will go to great lengths to preserve their financial credibility.

This being said, the unlikelihood of defaults should not be taken to mean that Latin American debts are inconsequential for U.S. economic policy. It is to the relationship of debt to trade that we now turn.

Debt and Trade. At the risk of over-simplification, the Latin American debt/trade dynamic can be stated as follows: (1) trade deficits lead to higher debt, (2) higher debt increases debt-service costs, (3) increased debt-service costs reduce the ability to import capital goods and raw material necessary for production and (4) less production reduces the capacity to export, thus going full circle by aggravating the trade deficit. The possible routes out of this vicious circle of self-perpetuating trade deficits include the following:

- Cut Imports. Import substitution, as stated above, is now largely discredited as a development strategy. However, energy conservation and the development of alternatives to expensive, imported oil are important steps being taken in several South American countries. Oil exploration and the development of Brazil's alcohol fuels potential are cases in point.

- <u>Cut Borrowing</u>. This would appear to be a necessary step, but it cannot be done with impunity. Both economic growth and public sector expenditures would have to be cut as well, and neither can be done in most LDC's without severe welfare repercussions. Furthermore, the difficulties in meeting existing debt service costs makes yet more borrowing inevitable in some cases. Of the $34.6 billion borrowed by Latin American nations in 1981, $28.2 billion (81.5 percent) went to pay interest. Interest payments are expected to exceed new loans in 1982.
- <u>Expand Exports</u>. While this would appear to be the best solution, the South American debtors are not in a position to export their way out of trouble. The magnitude of the accumulated debt is such that in most nations it dwarfs the actual and potential export revenues. The Brazilian case is instructive: after tremendous efforts and sacrifice, a chronic trade deficit was transformed in 1981 to a $1.2 billion surplus. While that sounds impressive, it barely makes a dent in the nation's $80 billion foreign debt (which is expected to grow another 15 percent in 1981 alone). Although the ratio of debt service to export earnings is healthier in other South American nations, the difference is a matter of degree rather than kind.

What, then, can be done to rectify this situation? No single one of the strategies described above can serve as a panacea. Conditions and solutions will vary according to each nation's financial conditions and development needs, but an integrated strategy which combines a reduction of dependence on economically substitutable imports (particularly oil), a more judicious approach to borrowing, and an expansion in exports will enable them to make progress.

The progressive opening of the U.S. market to larger volumes of Latin exports would also not constitute a cure-all to the debt problem. However, it is a necessary element in an integrated strategy, providing Latin economies with the means to expand both their productive capacities as well as their export revenues.

It will be substantially more difficult to convince Latin governments to open their own markets in return. An accommodation is possible through selected product liberalization by South America now with more significant liberalization to follow when conditions allow.

MARKET ACCESS AND UNITED STATES DOMESTIC PRESSURE

The Reagan Administration is well disposed towards South America and puts a high priority in helping to resolve the awesome economic problems the region now faces. The following argument for liberalization of our trade with South America should be made within the Administration, to Congress, and before the public.

(1) An economically healthy South America is important to the attainment of U.S. foreign and economic policy objectives. Cooperative inter-American political relations cannot exist alongside endless economic disagreements.

(2) Increased South American exports to the United States (especially at the expense of the Far East) should safeguard, and even create, employment in the United States -- rather than result in job losses.

(a) The principal obstacle limiting increased exports from the United States to South America is the shortage of foreign exchange. Although South American countries generally maintain very protected markets, their trade regimes are designed to allow the import of as many products as they can pay for but channel products into what are considered productive uses.

Increased opportunities for South America to increase export earnings are in the best interest of the United

States now. Significant trade liberalization must await an improvement in South America's financial situation.

(b) The United States maintains a foreign trade surplus with the most of the countries in South America. In 1980, only 6 percent of U.S. imports originated in South America, while 8 percent of U.S. exports were destined for South America In 1981, the United States had a greater share of most major South American countries' import markets than it did of their export markets (Argentina, Chile, Colombia, and Peru). The only exception among the major countries were Venezuela, with her huge oil exports, and Brazil, which used any excess foreign exchange earnings to pay off debts to American banks.

(c) Compared to the Far East, South America has a greater propensity to buy American products. The following chart demonstrates that, with the exception of Brazil and Korea, the larger South American economies are more likely to buy American products with their export earnings than are Far East producers.

U.S. SHARE OF TOTAL IMPORTS - 1981

(Source: <u>IMF Directory of Trade Statistics</u> -- 1982)

Colombia	41%
Peru	39%
Korea	23%
Chile	22%
Japan	18%
Brazil	17%
Singapore	13%
Hong Kong	11%

When one realizes, however, that there is an increasing proportion of intra-South American trade fostered by ALADI, the total United States share of third country South American trade is much higher. Therefore, displacement of Far East imports by South American imports in the U.S. market will increase South American foreign exchange earnings, and should normally result in greater exports from the United States.

(3) Increased earnings for South America are particularly beneficial to the United States, since they will allow service of South America's large debt to U.S. banks. Default on this overhanging obligation would cause serious

credit contractions in the United States which would have a deleterious effect on economic activity, including employment.

(4) More favorable treatment in U.S. policy towards South America could reflect the fact that, as with many countries, the wage rates and productivity levels in the Far East are such that it is difficult for South America to compete with the products of countries in that region. The United States implicity recognizes its own inability to compete with the Far East in a whole group of manufacturing sectors by resorting to formal and informal protectionist measures. In these circumstances it would be appropriate to provide for South American exports access to a slightly sheltered United States market. By allowing them to gain a toehold in the United States, we would help them to develop a competitive edge. The amount of diverted trade would be small and would have only modest effects on U.S. efficiency, inflation and consumer choice.

(5) By tilting our trade policy to favor South America, we would be following well established precedents and acknowledging the special relationships among the American republics. Whereas Europe and Japan tilt their economic policies to favor Africa and the ASEAN nations, respectively, it is only appropriate for the United States to tilt towards South America.

(6) The U.S. market is more closed to South America than is generally realized. As we have shown, more than 50 of the leading 100 South American products currently or potentially face serious barriers. This does not include other products where South America has a comparative advantage, but where U.S. import restrictions are insurmountable so that the products are not exported in quantities sufficient to appear on this list.

U.S. Policy Limitations. The current conditions of high unemployment, low industrial capacity utilization, and sluggish growth make a full-fledged U.S. effort at world trade liberalization unfeasible. This unemployment, combined with stiff competition from Far East exporters and a currently overvalued dollar, is the root cause of the recent surge of protectionist sentiment in the United States. Any attempt at universal liberalization for the sake of inter-American trade would be lost in the battle over U.S. employment and Far East competition.

The lack of flexibility by the Administration to liberalize trade on products of interest to South America becomes even more apparent when one reviews the 17 categories of the 100 leading exports from South America which are subject to significant limitations. These categories include products represented by such strongly protectionist lobbies as beef, fish, sugar, tobacco, steel, chemicals, textiles, leather and automotive products, all of which object to liberalization, even when expressly limited to South American products. Almost all support further limitations. These groups are all able to either promote or hinder legislative and trade initiatives, through their influence in Congress. Neither would they hesitate to involve themselves in log-rolling and coalition building to prevent liberalization for products of interest to them. Working through the specific trade agencies and the White House, they also exert influence on the Executive Branch. Finally, their easy access to the trade complaint petition process gives them another avenue of influence. They can allege injury from imports or unfair trade practices and seek relief, thus creating obstacles for South American exporters.

Building Support For A Liberal Trade Policy Toward South America. It is possible to develop a constituency favoring trade liberalization for, and opposing trade restrictions against, South American exports to the United States. Interests with South American connections, such as banks, agricultural and industrial producers and exporters, multinationals, Hispanic Americans and the foreign policy community should support such a policy. Protectionist sentiment should be partially appeased, if not completely neutralized, by an approach emphasizing liberal trade for South America but less access for the Far East (e.g. strict graduation criteria for the Far East as a trade-off for flexible criteria for South America. The Council of the Americas may be the appropriate private sector group to coordinate this approach.

This group must emphasize that although it favors general trade liberalization, it can live with trade liberalization specifically tailored to meet the needs of South America. The major threat to employment and profit levels in many industries emanates from Far East rather than South American imports. If one could develop liberalization favorable to South America which would not create opportunities for the Far East, one could succeed in changing U.S. policy in a more liberal direction despite the prevailing protectionist environment. Given the competitive strength of the Far East, the negative effect on its exports will be much less than the positive impetus provided for South America. This proposed favoritism toward South America will be called a "tilt" toward South America in U.S. trade policy.

U.S. Government Coordination. As a follow-up to the successful Presidential Latin American trip, this approach should be explored and developed. Not to retard or otherwise endanger the CBI, one should be careful not to prematurely unveil this initiative but wait until after the CBI passes or is put on the back burner by Congress. Since it would take a good six months to develop this initiative, this delay should not be a problem. Preparatory work could begin now on the subject.

The Trade Policy Committee (TPC) should provide for a hemispheric trade expert to participate in each decision that might have an impact on South America. Also, a special hemispheric trade subcommittee should be established to work with other subcommittees to develop legislative and executive proposals for a possible tilt. Similar procedures should be developed for other non-TPC committees (e.g., agriculture) involved in trade policy development and implementation.

One advantage of having a South American expert involved in trade decisionmaking is that the expert could be a link to South American trading partners in the active consultation and negotiation role foreseen in this paper. Such a willingness to consult could go a long way to convince America's neighbors that we are as interested in consulting with them as in consulting with Europe and Japan. It would demonstrate the high priority being given to these trade relations.

Given the multilateral confines in which normal trade coordination takes place, State and Treasury with White House support would have to play a key role in working with the trade agencies (USTR, Commerce and Agriculture), to bring about this tilt. Trade policy is increasingly intertwined with foreign, financial and aid policies. The above recommendation recognizes these factors and suggests that, as with the CBI, it is time the pendulum swung back to formulating trade policy in a broader context.

A similar combination of trade, foreign policy and leadership elements is necessary in Congress. Trade policy has been almost the exclusive fiefdom of the Senate Finance and the House Ways and Means Committees. Other committees must also contribute to this policy. Statesmanlike support for this initiative must come from the Senate Foreign Relations and House Foreign Affairs Committees. Finally, the leadership of the House and Senate must be persuaded to support this policy.

<u>The Role of an Economic Summit</u>. A hemispheric economic summit could be utilized to legitimize this tilt in U.S. policy. It would take from 12-18 months to formulate and implement the tilt and to build South American support for a successful summit. However, the expectation of a summit would create political support in the United States for the success of this initiative. Although trade should be

one of the more important elements, such a summit should also cover other topics. The political benefits of such a summit, particularly if it could be institutionalized, would be impressive in demonstrating hemispheric solidarity. Also, it would assist U.S. commerce by providing a positive thrust toward trade expansion.

However, the potential dangers of such a meeting should also be taken into account when weighing the advantages for trade policy. Expectations can easily be raised above capacity of the political leadership to effect meaningful changes, particularly given the risk that the press may overstate any actual or imagined failures. The problems which have arisen in our economic relations with Europe, especially in export controls, are a case in point.

It should be emphasized that much of the tilt could be implemented without a great deal of potentially hazardous publicity. A summit would put the spotlight on the liberalization under consideration, and would lead to heightened objections by the domestic U.S. industries which would be affected, non-hemispheric trading partners of the U.S., and MFN trade. On the other hand, if no publicity whatsoever is provided, the United States will receive no political credit in South America for its efforts. The approach must seek to strike a proper balance between excessive publicity which raises expectations to unrealistic heights, and a failure to present the program in a persuasive and realistic manner.

A TILT TOWARD SOUTH AMERICA IN U.S. TRADE POLICY

Given the impossibility of across-the-board trade liberalization under present circumstances, the only viable alternative is modest tilt favoring South America. Such a policy should be composed of the following elements.

(1) Review of our import regime, both in current and future cases, to be as forthcoming as possible to hemispheric interests. This would involved both a strong commitment to global trade liberalization on products of interest to South America, as well developing proposals favoring South American interests when global liberalization is not possible.

The failure of certain Administration officials to realize the implications of a restrictive policy towards sugar, both in our trade policy in general and to our hemispheric relations, specifically resulted in unnecessary commitments to the sugar industry early in this Administration which led to sugar quotas. Similarly, as a result of sweeping commitments given the textile industry by successive administrations, trade officials have found their hands tied, both in general textile trade policy, as well as in specific bilateral implementation towards South America. Under the proposed tilt, such trade policy would be reviewed from a South American point of view.

Had this policy been in effect when sugar import quotas were initially considered, it would have meant that State, particularly its American Republic Bureau (ARA), USTR, and Agriculture would have been involved in both the general sugar decision, and in its implementation toward South America. Interestingly enough, these three agencies were involved only in implementation of the policy after the restrictive path was already set in motion by the White House and OMB. The result has been an unnecessarily restrictive policy at the expense of South America (with the single exception of Peru.)

Given the currently high domestic price for sugar -- which is more than one cent above the legislated minimum -- it should be possible to increase South American quotas.

In textiles, it would have meant that ARA would have been fully involved with the White House in developing an overall textile import policy. Similarly, ARA would be involved with the inter-agency group to develop guidelines for as much of a tilt toward South America as possible. A strategy would be developed where there would be an effort not to limit new and small suppliers in the hemisphere and provide more generous limitations for large suppliers. A strategy could be developed to allow South America to begin to take a larger bite of the Far East share of the market by liberalizing limits on such major suppliers as Brazil and Colombia. The administration should buy off the industry, if necessary, by being stricter with established Far East suppliers, while being generous toward South America.

(2) <u>Delay graduation for South America until their economies are fully recovered from the current crisis.</u> This policy was most recently evidenced by the decision to allow Brazil two more years than originally envisioned to phase out its direct export subsidies.

Although this action was taken by the Executive, there has been little criticism from protectionist groups on the Hill. In the GSP area, a coalition should be engaged to convince Congress that now is not an appropriate time for Brazil and others to begin to graduate from GSP. It is possible that, to the extent there is a graduation aimed exclusively at Far Eastern suppliers, Congress will not go after Brazil (and Mexico).

(3) For reciprocity in trade negotiations, pursue commitments from South America for future concessions in exchange for U.S. liberalizing actions in the short run. The implementation of meaningful concessions from South American countries may have to be held on abeyance until economic conditions permit. High debt and the global economic recession have put South America in a precarious situation, and general liberalization of their import regimes would be politically unwise and economically disastrous. A more realistic solution would entail immediate token liberalization through the elimination of some specific irritants in South American import regimes, as well as general commitments from South American nations to effect more thorough liberalization at some future date when the present debt crisis and recession have passed.

(4) Assure that GSP renewal in 1984 provides for expanded benefits for South America. Particular attention should be paid to product exclusions. Many products of potential interest to Latin America have been excluded because of the competitive strength of certain Far East suppliers who may be graduated from GSP. For specific products, Far East suppliers could be subject to discretionary graduation, but South American suppliers should not be

graduated. In order to determine whether selective GSP graduation is appropriate, the annual GSP review could include reports from embassies' economic and commercial aid officials concerning the strength of the South American industry. Based on these reports, the GSP subcommittee could decide whether South American countries should be graduated.

Similarly, modification in the competitive need rule should be proposed to allow the Administration a certain amount of discretion in these decisions. Forty three percent of exports from South America which otherwise would be eligible for GSP, do not enter duty-free because of competitive need -- a higher total than from the Far East.

(5) <u>Seek administrative and statutory changes to allow for more executive flexibility in administration of U.S. unfair trade law.</u> We should take into account South American practices which are necessary to offset structural obstacles to exports. For example, in view of the current economic situation, the Administration should not insist that direct export subsidies by many South American countries be phased out in order to be eligible for an injury test. Consistent with the GATT subsidy countervailing duty code and a literal reading of congressional legislation, U.S. negotiators should not insist on a direct export subsidy phase out when developing countries can cite valid development reasons for their continuation. Admittedly, adoption of such a policy would require considerable education of the Congress.

Congressional opposition may not be insurmountable, especially since administrative interpretation rather than congressional legislation is all that is needed to change current practices. Congress accepted, with minimum complaint, subsidy agreements with Pakistan and India which did not require any type of a phase out. Similarly, there was little reaction to the extension of the deadline for the Brazilian subsidy phase out refered to above.

(6) Modify legislation to reduce opportunities for costly and inefficient multiple jeopardy in our trade laws. This policy must be done across the board, although it would greatly benefit South America, which has been the victim of many multiple jeopardy cases. As the law now stands, U.S. producers who claim to be victims of import competition (fair or unfair) may bombard their foreign competitors with a rolling barrage of litigation procedures with no penalty for unsubstantiated charges. Instead of continuing with the current procedure of dealing with each practice as an individual complaint, the petitioner should be required to compare his complaint with all of those involving similar products.

(7) Abandon the U.S. practice of imposing trade sanctions against South American countries in nontrade disputes. Past experience demonstrates that there were few benefits to offset the political and economic costs accruing to the United States from depriving Venezuela and Ecuador of GSP treatment for five years (simply because they were OPEC members). Similarly, the U.S. should review with Congress the policy of embargoing all tuna fish imports from Ecuador and Peru because of disputes over fishery zones. The Administration has an obligation to educate Congress about the futility and the sometimes counterproductive consequences of such retaliation.

(8) <u>Conduct a comprehensive review of U.S. commodity policies in those few areas where the United States could tilt toward South American interests</u> -- particularly in allotting shares for South American countries dependent on particular exports.

(9) <u>Develop a more meaningful system of consultations over GSA disposal of stockpiled products of interest to Latin America during periods of depressed prices.</u> A private board of commodity experts could be appointed, including experts from both South America and the United States, to advise on the implications for commodity markets of alternative disposal strategies.

Administration's precedent for a tilt in U.S. trade policy in favor of a particular world region was proposed in the Caribbean Basin Initiative. Although the tilt proposed in this paper would not be nearly so far-reaching as the CBI, and would not involve GATT-inconsistent preferential treatment, it would stem from the recognition of similar political and economic factors, including the special relationship among the American republics. The tilt envisioned here would not permit special access for South American products to be a degree which injure U.S. producers or employment. Any tilt towards South America in fashioning relief from imports would not undercut the effectiveness of the relief, and would only be employed in such cases where the cause of disruption was outside of South America.

Specific recommendations for policy initiatives can be subdivided into those requiring only administrative discretion and those requiring legislation. (Given the oversight role of the congressional trade subcommittees, however, even administrative decisions will involve Congressional forbearance.) Increasing order of difficulty, decisions which can be made on the basis of administrative discretion include:

(1) Fashioning import relief and other restrictive actions to take into account South American interests through specially selected base periods, product classifications, price breaks, etc.

(2) Providing special and more favorable U.S. positions for South America in trade negotiations. Favoritism could be implemented by selecting products and sub-categories of special interest for South America for negotiation, requesting less reciprocity, etc.

(3) Under GSP, designating South America as eligible for certain products for which the Far East has been graduated.

(4) Liberalizing restrictions of South American sugar and textile exports.

(5) Reducing U.S. demands on South American countries in our subsidy negotiations for an injury test.

(6) In the commodity area, policies where the U.S. position could be more favorable toward South America than it is now particularly in the export allocation area.

Decisions which require legislation in increasing order of difficulty include:

(1) In a renewed GSP scheme, (a) delaying graduation for more advanced South American countries and (b) providing administration discretion in administering the GSP competitive need provisions.

(2) Providing GSA a better form of consultation before implementing stockpile disposal programs.

(3) Providing the administration discretion to avoid imposition of trade sanctions against South America or other countries when there are overriding national considerations.

(4) Establishing rules on petitions for import relief to prevent multiple jeopardy situations.

Appendix I

SOUTH AMERICAN TRADE ASSOCIATIONS

One of the central elements of the ECLA thesis of Latin American underdevelopment has been a rejection of the belief in income equalization through free trade. Classical economic theory holds that free trade will result in an efficient market system which distributes both labor and income evenly, with each nation specializing according to its comparative advantages and receiving a just share of the rewards. Eventually -- according to theory -- income will be equalized across borders and all nations will benefit.

The ECLA economists argue that the structural inefficiencies and economic vulnerability of the Latin American nations make them too weak to compete favorably with the developed nations, and that for this reason the "income equalization" effect of trade is nullified or even reversed. With the Latin nations too small to bargain effectively as individuals, it was argued that both their power and internal markets would increase substantially by banding together.

The South America trade associations have had a checkered history. There are currently two with which we should concern ourselves.

ALADI The Latin America Integration Association began life as the Latin American Free Trade Association (LAFTA, or ALALC in Spanish) twenty years ago. It was renamed and reorganized under the Treaty of Montevideo (1980), in response to growing doubts as to its effectiveness in achieving its goals of free trade and an American common market. The changes of 1980 have accomplished little in the way of dispelling these doubts.

The original LAFTA emphasis was on achieving regional free trade through multilateral tariff reductions. ALADI's goals and tools are broader. It is innovative in its recognition of income disparities among the member nations, a rare admission for a Third World association. By the three-tiered ALADI scale, the members are categorized as more developed (Argentina, Brazil and Mexico) intermediate (Colombia, Chile, Peru, Uruguay and Venezuela), and least developed (Bolivia, Ecuador and Paraguay). Operating under the NIEO principle that there not be "equal rights and obligations among unequals," the less developed a nation is the more product exceptions it is entitled to from the regional tariff preference schedule.

In addition to a regional tariff, ALADI's tools include general agreements on a variety of topics (trade, tourism, environmental protection, etc.) and "partial agreements" which begin bilaterally or subregionally but are intended for eventual extension to the general membership. With a structure that takes different levels of development into a ccount and allows for incremental adherence by the members, ALADI hopes to succeed where LAFTA failed by not rushing headlong into commitments that its members cannot realistically keep.

Will ALADI be successful? There are some encouraging signs among the South American republics that it will be taken seriously as a regional development agency. The international recession has hit the member nations hard, with exports to the developed nations suffering and reserves dwindling. The depressed markets abroad have led groups such as the Asociacion de Industriales Latino Americanos to see further regional integration as a remedy. That the member nations take their commitments to ALADI seriously is demonstrated by the Brazilian case. Although the current financial crisis led Brazil to impose harsh import controls, an exception was made for products from ALADI member nations.

But if the LAFTA experience is any indication of ALADI's potential, the prospects are not good. In 1980 only 12 percent of the products imported by member countries originated in other ALADI nations; this represents an almost imperceptable improvement over the 1970 figure of 11.2 percent. ALADI's prospects depend heavily upon sustantial consensus and political will from its membership, two items which have been in unfortunately short supply in South American history.

<u>The Andean Pact.</u> The Pact was originally established as a subregional group within the structure of LAFTA. It was intended to provide an expanded internal market and a coordinated development plan for the Andean nations.

The Pact has been beset by problems from its very beginning. A major error was its tendency to put the cart before the horse: more time and energy was spent debating which nation would produce what product than on the less interesting but ultimately more important nuts-and-bolts issues of cooperation and coordination. As a result, regional economic opportunities were lost to uncooperative national economic interests.

Another economic problem was the forelorn attempt to coordinate the disparate economic policies of the members. The best example of this would be the hotly-debated Decision 24, which attempted to impose a binding regional policy on foreign direct investment. This went against the grain of Chile's relatively open investment policy, and ultimately led to that nation's withdrawal from the Pact.

A final area of dispute has been political. The sometimes acute divisions among the members have acted to check any meaningful progress in economic cooperation. The Peruvian/Ecuadorian boundary dispute and the regional condemnation of Bolivia's human rights violations have placed great obstacles in the way of meaningful cooperation.

The group has not been entirely unsuccessful~~ly~~, however. One accomplishment was the acceptance by the U.S. in 1980 of the Pact's petition to have its products dealt regionally under the GSP program. As a result, the local content provisions are extended to the entire Pact, which means that as long as 35 percent of the value added in a product originate anywhere among the member countries, it is eligible for GSP treatment.

Also, at least until the assumption to power of new Colombian government, there was increasing support for a more outward looking trade policy. However, no new direction was agreed upon and the Pact has been moribund for at least the past 18 months. Its resurgence and effectiveness will depend upon the political will of its members to overcome political differences and economic nationalism for the sake of regional cooperation. At present, the prospects are not good that this will take place.

Appendix II

PAST PRESIDENTIAL TRIPS AND SUMMITS IN LATIN AMERICA

Past Efforts. Several attempts have been made in the last two centuries to bring the presidents of the Americas together to discuss matters of common concern. Whie there have been a few successes, alternating waves of reluctance and zeal on both sides of the Rio Grande have kept such meetings from achieving any sort of regularity.

A number of attempts were made by Latin Americans in the nineteenth century to bring about a hemispheric summit. The earliest and most important of these was the Congress of Panama, called by Simon Bolivar in 1826. It took the United States Congress several months of delay and debate to finally authorize the dispatch of a delegation, and by the time they arrived the Congress was already over. The First and Second Congresses of Lima (1847-48 and 1864-65) and the Continental Congress (1856) were failures as well.

It was not until the United States took an active interest in the creation of an inter-American system that there was any lasting success. Secretary of State James G. Blaine believed that though pan-Americanism the nations of the western hemisphere could achieve both a lasting peace and cooperative economic properity. While he was unable to persuade the Latin American delegates to the First International Conference of American States (Washington, 1889-90) to go along with his plans for an American customs union, in this first meeting the foundations were set for the inter-American system of today.

Several American presidents attended and addressed these and other American conferences, as did Coolidge (Havana, 1928) and Roosevelt (Buenos Aires, 1936). Other presidents have gone on good will tours of Latin America, as did Hoover (1928), Eisenhower (1960), and Carter (1979, and Reagan (1982). Presidents have also sent special representatives on goodwill and fact-finding trips, as Eisenhower did with his brother Milton and Nixon did with Nelson Rockefeller. Vice Presidents, Secretaries of State, Ambassadors to the United Nations and others have also represented their presidents on special missions to other American heads of state.

All of this notwithstanding, there have been only two successful efforts to bring together the presidents of the Americas in a single summit. In each case substantial progress was made in inter-American economic affairs.

The first such meeting was held in Panama in 1956, the 120th anniversary of the first Congress of Panama. While a recent ileitis operation kept President Eisenhower from participating in substantive talks with his colleagues during the conference, he did invite each of them to name a personal representative for discussion on how the OAS might act as a more effective instrument in development matters. The subsequent meetings held over following year and a half were a significant step towards the founding of the Inter-American Development Bank, the Social Progress Trust Fund and the Alliance for Progress.

The second meeting was held in Punta del Este in 1967 to discuss how a flagging Alliance for Progress might be reinvigorated.

The meeting was generally quite successful and led to a new consensus on the Alliance, but this was unfortunately rendered moot by Lyndon Johnson's decision the next year to withdraw from the presidential campaign.

A Proposal. We feel that inter-American economic and political cooperation could be enhanced tremendously by a regularization of such hemispheric summits. As the history of the pan-American movement indicates, it falls to the United States to take the initiative in such matters. We would suggest that key American heads of state (Miguel de la Madrid, Luis Herrera Campins, Fernando Belaúnde Terry, etc.) be sounded out as to their feelings on the matter. Venezeula could be a logical site for the meeting, given its democratic values and the fact that it would commemorate the 200th anniversary of Bolívar's birth.

The paper suggests that if these is sufficient hemispheric consensus for a more ~~consensual~~ trade regime including elements of an American tilt, a summit might be a useful tool to legitimize the policy, assure internal U.S. support and allow the United States to win some hemispheric pandits for its action. A summit in late 1983 or early 1984 might be an appropriate time.

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Appendix III

National Economic Statistics

Explanation

With the exception of trade balance statistics (which were obtained from IMF), all data is from the Inter-American Development Bank. Figures for population, GDP, GDP per capita exports and imports and the trade balance are for 1981.

Data on debt and the debt service ratio are for 1980. The figures on the destination of exports and the origin of imports are the average for 1977-79.

ARGENTINA

Population	28.1 million
GDP (1981)	50.4 million
GDP per capita	1976
External Public Debt	$12.2 billion
Debt per capita	$434
Debt Service Ratio*	19.9

Exports $6654 million

Destination: U.S.: 7.8% EEC: 32.7%
Latin America: 25.5%

Imports $6756 million
Origin: U.S.: 19.5% EEC: 27.6%
Latin America: 23.2%

Trade Balance: -$2112 million
with U.S.: -$1204 million

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*The ratio of external public debt service to value of exports of goods and services, expressed in percentages.

BOLIVIA

Population	5.8 million
GDP	$3.2 billion
GDP per capita	$550
External Public Debt	$2.9 billion
Debt per capita	$500
Debt Service Ratio	26.2

Exports $487 million

Destination: U.S. 32.3% EEC: 24.6%
Latin America: 28.7%

Imports $392 million

Origin: U.S.: 24.4% EEC: 17.9%
Latin America: 30.7%

Trade Balance: -$428 million
with U.S.: -$41 million

BRAZIL

Population	121.5 million
GDP	$189.0 billion
GDP per capita	$1555
External Public Debt	$51.5 billion
Debt per capita	$424
Debt Service Ratio	36.1

Exports $13.7 billion

Destination: U.S. 19.9% EEC: 30.5%
Latin America: 14.8%

Imports $14.7 billion

Origin: U.S.: 19.7% EEC: 18.7%

Latin America: 11.5%
Middle East: 28.5%

Trade Balance: -$3263 million
with U.S.: +$430 million

CHILE

Population	11.1 million
GDP	$18.6 billion
GDP per capita	$1675
External Public Debt	$5.1 billion
Debt per capita	$459
Debt Service Ratio	23.5

Exports $4100 million

Destination: U.S.: 12.5% EEC: 35.8%
Latin America: 26.6%

Imports $47333 million

Origin: U.S.: 23.7% EEC: 16.5%
Latin America: 29.6%

Trade Balance: -$2335 million
with U.S.: -$764 million

COLOMBIA

Population	26.7 million
GDP	24.7 billion
GDP per capita	$925
External Public Debt	$6.7 billion
Debt per capita	$251
Debt Service Ratio	11.2

Exports $3512 million

Destination: U.S.: 33.4% EEC: 33.0%
Latin America: 12.7%

Imports $4307 million

Origin: U.S.: 38.3% EEC: 20.8%
Latin America: 17.1%

Trade Balance: -$1710 million
with U.S.: -$1129 million

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ECUADOR

Population	8.2 million
GDP	$8.7 billion
GDP per capita	$1053
External Public Debt	$3.7 billion
Debt per capita	$451
Debt Service Ratio	14.4

Exports $1742 million

Destination: U.S.: 39.2% EEC: 13.0%
Latin America: 28.9%

Imports $2589 million

Origin: U.S.: 36.4% 20.6%
Latin America: 12.8%

Trade Balance: +$230 million
with U.S.: +$104 million

PARAGUAY

Population	3.3 million
GDP	$3.9 billion
GDP per capita	$1205
External Public Debt	$1.2 billion
Debt Service Ratio	12.8

Exports $471 million

Destination: U.S. 9.7% EEC: 39.3%
Latin America: 29.0%

Imports $1016 million

Origin: U.S.: 11.4% EEC: 18.8%
Latin America: 43.0%

Trade Balance: -$210 million
with U.S.: -$34 million

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PERU

Population	17.0 million
GDP	$22.0 billion
GDP per capita	$1294
External Public Debt	$1.2 billion
Debt per capita	$71
Debt Service Ratio	32.7

Exports $2729 million

Destination: U.S. 36.5% EEC: 18.8
Latin America: 13.4%

Imports $3236 million

Origin: U.S.: 36.0% EEC: 27.0%
Latin America: 15.8%

Trade Balance: -$551 million
with U.S.: -$474 million

URUGUAY

Population	2.9 million
GDP	$6.3 billion
GDP per capita	$2156
External Public Debt	$1.5 billion
Debt per capita	$517
Debt Service Ratio	12.3

Exports $1557 million

Destination: U.S.: 14.3% EEC: 32.4%
Latin America: 31.8%

Imports $1057 million

Origin: U.S.: 9.3% EEC: 19.1%
Latin America: 36.3%

Trade Balance: -$464 million
with U.S.: -$29 million

VENEZUELA

Population	14.3 million
GDP	$37.4 billion
GDP per capita	$2615
External Public Debt	$11.1 billion
Debt per capita	$776
Debt Service Ratio	14.8

Exports $2524 million

Destination: U.S.: 39.9% EEC: 7.8%
Latin America: 12.5%

Imports $11.1 billion

Origin: U.S.: 42.3% EEC: 24.2%
Latin America: 10.0%

Trade Balance: +$8141 million
with U.S.: -$172 million

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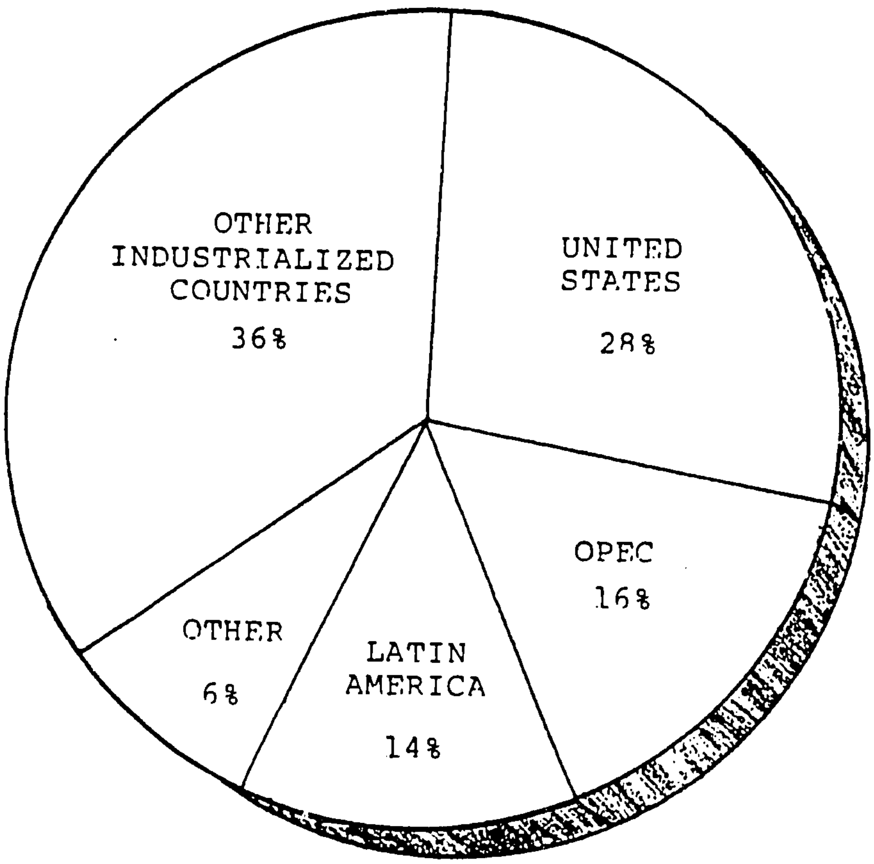
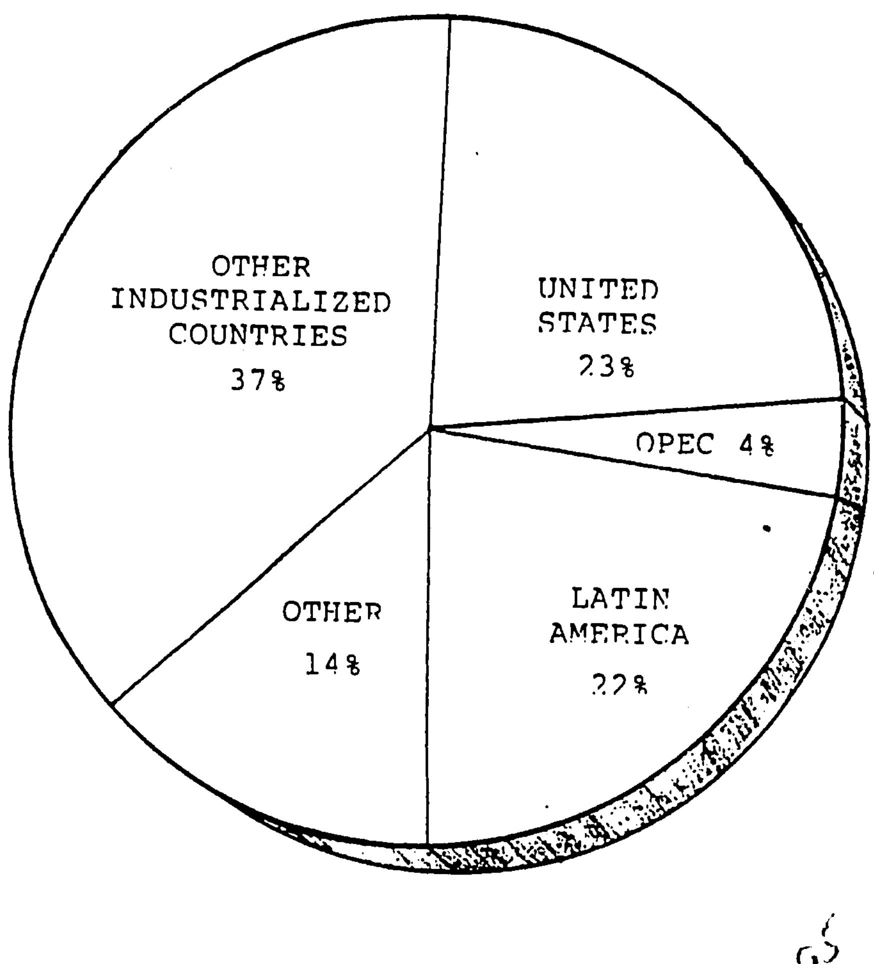
SOUTH AMERICAN FOREIGN TRADE, 1981



IMPORTS: $65.2 Billion

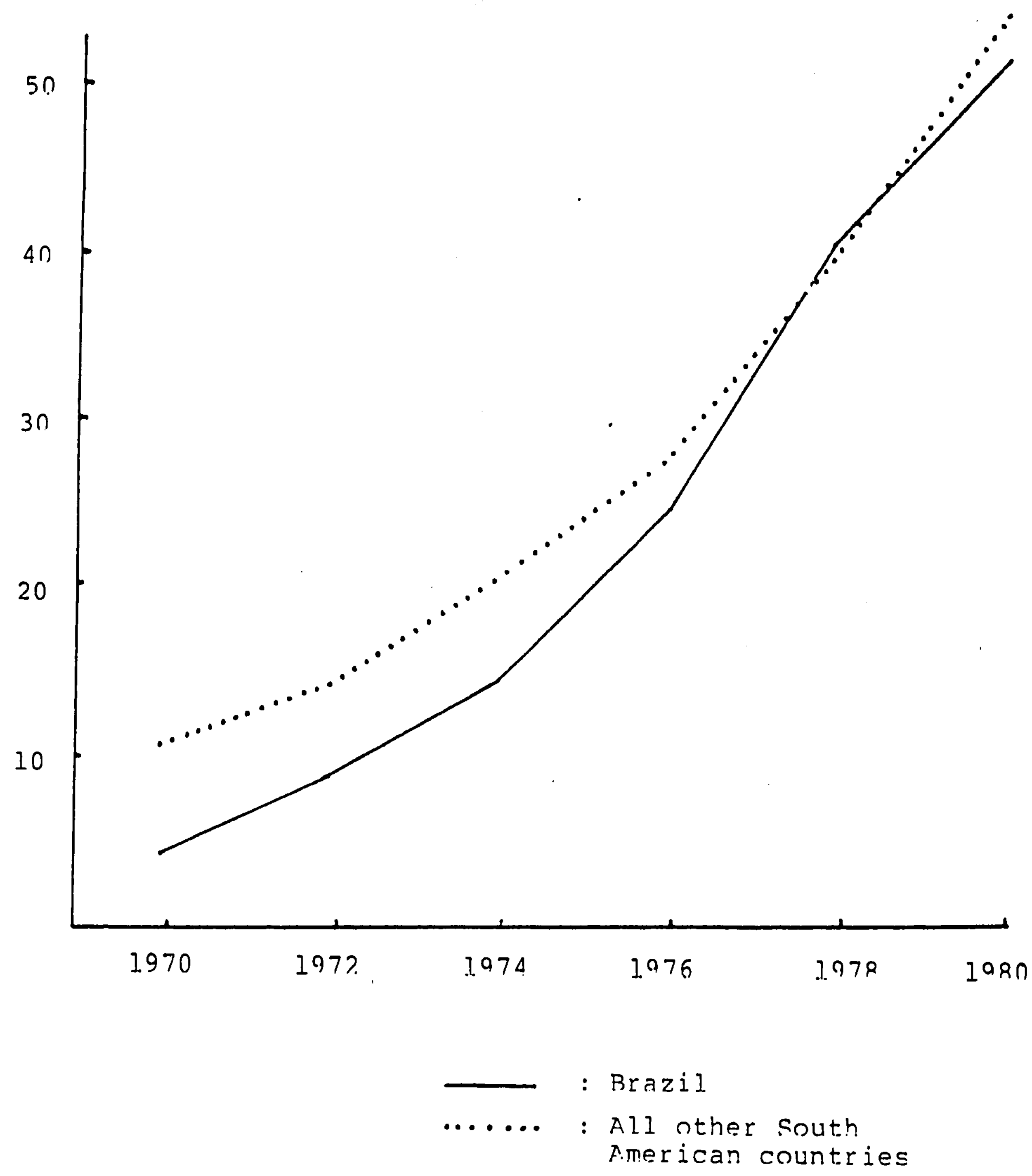
EXPORTS: $62.6 Billion



SOURCE: International Monetary Fund

PUBLIC EXTERNAL DEBT
OF SOUTH AMERICA, 1970-80

In Billions of Dollars



SOURCE: Interamerican Development Bank

Appendix IV

Leading 100 Exports from South America to the United States

I. Exports not subject to U.S. barriers

Category	TSUS#	Description
AGRICULTURAL		
FRUITS AND JUICES		
	14640	Bananas, fresh
	16515	apple or pear juice
	14910	plantains, fresh
NUTS		
	14542	Brazil nuts
	14544	Cashews, shelled
COCOA & CHOCOLATE		
	15640	Cocoa, unsweetened
	15620	Chocolate, unsweetened
	15610	Cocoa Beans
	15635	Cocoa Butter
COFFEE & TEA		
	16010	Coffee, Crude
	16020	Coffee, soluble or instant
	16050	Tea
SPICES		
	16177	Pepper, black or white
MISC. MANUFACTURES		
	31520	Binder and baler twines
	64943	Cutting Tools
	67652	parts for office machines
	68017	Taps
METALS & ORES		
	60154	Tungsten Ore
	60220	all zinc bearing ores

Category	TSUS#	Description
	60340	materials chief value molybdenum
	60106	Bauxite
	60570	precious metal sweeping
	60210	all leading bearing ores
	60142	tantalum ore
	41880	gold compounds
	60121	columbium ore
	60148	tin ore
	62202	tin, not alloged
	60166	other metal bearing ores
PRECIOUS STONES & JEWELRY		
	52011	natural precious and semiprecious
	52039	precious stones
	74010	jewelry, other
WOOD & WOOD PRODUCTS		
	25002	wood pulp
	20234	lumber, mahogney
	24520	hardboard
	20244	lumber, hardwood
	24003	other wood veneers
	24023	plywood, not finished
ELECTRONICS		
	68758	electronic tubes
	68804	insulated conductors
	71249	elect. measuring equipment
OTHER MISC.		
	52111	asphaltum, bitumen
	15710	candy

II. Products Subject to Actual or Threatened U.S. Import Restrictions

Category	TSUS#	Description	Restrictions*
AGRICULTURAL			
MEAT			QR, H&S
	10748	Corned beef in airtight	
	10752	Beef in airtight cont.	
	10763	Beef, veal, preserved	
FISH			H&S, embargo[1]
	11010	Sea herring, smelts	
	11047	Fresh fish, skinned	
	11070	Fresh fish, other	
	11222	Sardines, prepared	
	11445	Shellfish	
CITRUS			HD, GSP, (CVD)
	16535	Citrus fruit juices	
	45234	Lemon oil	
GRAPES			Domestic marketing order, GSP
	14761	Grapes, fresh	
	14763	Grapes, fresh	
CASTOR OIL			CVD
	17614	Castor oil	
SUGAR			QR, HD
	15520	Sugars, syrups and molasses	
	15540	Beet or cane molasses	
TOBACCO			HD, GSP, (reclassification)
	17060	Scrap tobacco	
	17080	Tobacco, manufactured	

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Category	TSUS#	Description	Restrictions*
FLOWERS			(H&S, escape clause, CVD orderly marketing agreement)
	19219	Fresh cut flowers	
	19221	Fresh c.f., bouquets	
METALS			
IRON AND STEEL			CVD, GSP, AD, HD, (301), OECD steel consultations[2]
	60124	Iron ore	
	60613	Pig iron	
	60766	Iron and steel plates	
	61032	Welded pipes	
	61049	Pipes, other	
FERROALLOYS			GSP, (national security)
	60637	Ferrosilicon	
	60653	Ferroalloys, other	
COPPER			GSP, (restrictive legislation)
	61203	Unwrought black	
	61206	Unwrought	
CHEMICALS			QR, GSP, (AD)
	40110	Benzene	
	42300	Other inorganic compounds	
	42788	Ethyl alcohol	
	47210	Barium sulfate	
	48025	Sodium nitrate	
JEWELRY			HD, GSP
	52038	Cut emeralds	
TEXTILES & APPAREL			CVD, QR, HD
	30631	Wool	
	32000	Woven cotton fabrics	
	32010	Cotton woven f. #10	
	36624	Towels	
	38263	Women's, g&i wearing ap.	
	38281	W, g&i wg. ap., not knit	

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Category	TSUS#	Description	Restrictions*
LEATHER & LEATHER PRODUCTS			CVD, HD, GSP
	12165	Fancy leather	
	12161	Bovine leather	
	70035	Footwear, leather, other	
	70045	Footwear, leather, not male	
	70607	Leather handbags	
	79176	Wearing apparel, leather	
	79190	Leather articles, other	
RADIOS			HD, GSP
	68521	Solid state radios	
VEHICLES			
AUTOMOBILES & RELATED PRODUCTS			GSP, (restrictive legislation)
	66042	Internal comb. engines	
	66048	Piston-type engines	
	66067	Parts of piston-type	
	66071	Parts for internal comb.	
	68360	Ignition magnetos	
	69030	Wheels	
	69035	Parts for passenger cars	
	69220	Automobile, truck & motor	
	69232	Chassis, bodies, etc.	
AIRPLANES			(FAA certification, CVD, 301)
	69441	Airplanes and parts	

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*: These restrictions apply to one or more of the TSUS numbers within each category. Restrictions listed in parentheses are either pending or threatened; other restrictions are in effect.

The following abbreviations have been used:

CVD: countervailing duty
GSP: product not accorded GSP treatment

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