FORUM OF THE AMERICAS

Open Trade and Investment: A Vision and an Agenda for the Americas

FOREWORD BY U.S. PRESIDENT GEORGE BUSH

Americas Society/Council of the Americas
Consejo Empresario de América Latina (CEAL)
Business Council on National Issues (BCNI)

In cooperation with the International Center for Economic Growth

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Foreword

I am pleased to congratulate the members of the Americas Society as they publish the proceedings of last April's Forum of the Americas. Special congratulations to all those who took part in organizing that important event, including the International Center for Economic Growth, the Consejo Empresario de America Latina, and the Business Council on National Issues of Canada.

The participation of more than 500 private sector leaders in this hemispheric conference revealed a deep and widespread commitment to our vision of a democratic community of nations, dedicated to market-oriented economic policies. The United States is both pleased and proud that conferees share our hope of establishing a dynamic free trade zone from Point Barrow, Alaska, to Tierra del Fuego. The North American Free Trade Agreement between the United States, Mexico, and Canada will be but a first step in that direction. Through the Enterprise for the Americas Initiative that we launched more than two years ago, we will continue to remove barriers to trade and investment throughout the Hemisphere, thereby creating jobs, opportunities, and prosperity for all of our citizens.

These Forum proceedings reflect a truly remarkable consensus on the part of U.S., Canadian, and Latin American business communities to work together toward free and fair trade. Such cooperation will yield more exports, more investment, more consumer options, and—most important—more jobs in each of our countries. I am pleased to commend this report to you.

George Bush
President of the United States of America

Summary of Conclusions

In April 1992 more than five hundred business and government leaders from throughout the Western Hemisphere gathered at the Forum of the Americas to discuss "Open Trade and Investment: A Vision and an Agenda for the Americas." Although Forum participants held differing views and perspectives, they were brought together by a shared interest in the pursuit of freer trade and investment throughout the Western Hemisphere. In small working groups and as a plenary body, they discussed the issues of open trade and investment and the conditions necessary to achieve them. The participants did not formally adopt any positions, but through a process of give and take they came to a number of conclusions, which are summarized here.

1. There was unprecedented agreement among the business and government leaders on the importance of open trade and investment for achieving the twin goals of economic growth and human development. To these goals, Forum discussion added that of sustainable development.

2. Conditions in the Western Hemisphere are now more favorable than ever for a free trade and investment area. Participants described the radical change from the traditional, government-led import substitution model of development to a more open, market-oriented one in country after country in Latin America. They called attention to the fact that these economic reforms have been undertaken by democratically elected governments. But there was also

broad recognition that the adjustment process involves high, though transitory, social and economic costs. The Forum participants made major investment in education and training throughout the hemisphere one of the primary recommendations.

3. Much of the discussion focused on what sequence of steps should be taken in moving toward more open trade and investment. The most serious concern was increasing protectionism by the industrial countries. Two issues in the current North American Free Trade Agreement (NAFTA) negotiations were raised: labor and the environment. Assistance to labor where adjustment is difficult was considered vital to the process. In addition, participants reached no consensus on whether environmental issues should be integrated into multilateral trade agreements or discussed in separate but parallel negotiations. Some pointed out that it is now important to specify how other countries might accede to NAFTA or the Enterprise of the Americas initiative.

4. There was general agreement that regional economic blocs could be complementary to the General Agreement on Tariffs and Trade (GATT). In fact, they could help promote rather than hinder world economic integration as long as their creation is accompanied by multilateral trade liberalization.

5. Participants expressed a strong belief that domestic reforms must precede trade integration and that integration agreements would contribute to the stability and predictability so important for economic growth, producing a virtuous circle of domestic reforms and trade integration.

6. From the speakers and working groups, a clear agreement on the basic elements of economic reform emerged. These elements include deregulation, privatization, efficient tax structure and collection practices, avoidance of private

monopolies, safeguarding of intellectual property, nondiscriminatory treatment of foreign investment, no special treatment for agriculture or other sectors, and international dispute resolution.

7. Participants clearly voiced their belief that responsibility for growth lies with the private sector as long as the state sustains the proper conditions. The importance of the state in three areas was noted: providing for some limited social services, defending property rights, and assuring the proper functioning of markets, especially where problems such as externalities or monopolies exist.

8. There was broad agreement that institutional structures need to be reformed along with economic policies. Among those cited were law-making procedures, particularly through increased citizen participation and transparency; the judicial system; and the securing of private property rights for all.

9. Discussions emphasized the importance of government, business, and labor working together to increase a country's competitiveness.

10. There was recognition that if companies base their investment decisions on the assumption of more open trade, then liberalization will become a self-fulfilling prophecy.

11. The following agenda for action emerged from the Forum discussion:

    - opposition to protectionism in one's own country and abroad

    - support for regional trade opening and efforts to ensure that trade blocs are stepping stones to global integration

- progressive harmonization of individual country economic policies, including continued efforts for price stability and exchange rate competitiveness
- a rethinking of the role of the state, to reduce its direct involvement in the economy through deregulation and privatization, but to increase its role in dealing with social conditions and strengthening the market through prevention of price distortions
- the safeguarding of intellectual property, nondiscriminatory treatment of foreign investment, and the establishment of international dispute arbitration
- institutional reforms in law-making procedures, the securing of private property rights, and reform of the judicial system
- continued attention to the international competitiveness of products and firms
- integration of commercial and environmental objectives and the internalization of environmental costs and values
- support for major investment in education and training

Above: President George Bush with officers of the organizations cosponsoring the Forum: David Rockefeller (left), chairman, and George Landau (second from right), president, Americas Society/Council of the Americas; Antonio del Valle (center), president, Consejo Empresario de America Latina; and Thomas P. d'Aquino (far right), president and chief executive, Business Council on National Issues, Canada. Right: President Bush greets Nicolas Ardito-Barletta, general director of the International Center for Economic Growth, which cooperated with the above organizations in sponsoring the Forum.

Forum of the Americas

The Forum Process

The Forum of the Americas brought more than five hundred business and government leaders together in Washington, D.C., April 22 and 23, 1992, to discuss "Open Trade and Investment: A Vision and an Agenda for the Americas." The Forum was organized by the Americas Society and its business affiliate, the Council of the Americas, which represents more than two hundred U.S. companies with interests in Latin America. It was cosponsored by two leading Latin American and Canadian business organizations: the Consejo Empresario de America Latina (CEAL), composed of leading Latin American businesspeople, and the Business Council on National Issues of Canada (BCNI), representing 150 Canadian chief executive officers. The Forum was held in cooperation with the International Center for Economic Growth.

The Forum was structured to promote discussion by participants on the issues of open trade and investment and the conditions necessary to achieve them. (For a full copy of the program, see Appendix A.) Attendees elected to participate in one of seven working groups that met simultaneously on the first day of the meeting. The working groups covered four economic sectors (agriculture, energy and natural resources, manufacturing, and services and capital markets) and three issue areas (competitiveness; judicial, legal, and regulatory issues; and sustainable development). Each working group was cochaired by two prominent business leaders—managers of major multinational corporations in the hemisphere—who were assisted by project directors, experts in the workshop subjects.

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Brief papers outlining the key issues for each working group were prepared by the project directors, drawing on their technical backgrounds, and were distributed to participants prior to the working group sessions. These papers were revised on the basis of give-and-take discussions in the working group sessions and then were presented to the plenary the afternoon of the second day. (The papers appear in Appendix B.)

Along with an overriding sense of urgency, there was an unprecedented level of agreement among participants from throughout the Western Hemisphere on the importance of open trade and investment for both economic growth and human development. The following summary of the proceedings—which highlights the keys issues—draws on the working group papers, speeches, and panels.

Several common threads were woven through the two days of discussion: the need for structural adjustment of the economies from import substitution to more open trade, the need for competitiveness in the marketplace to achieve growth and human development, a commitment to regional and global economic integration, and a deep concern for the social impact of the major economic reforms being undertaken.

The Vision

David Rockefeller called for "A free trade and investment area embracing the entire Western Hemisphere by the year 2000," a concept long discussed by leaders in the hemisphere. His call was broadly embraced by the Forum participants.

The Goals

Trade and investment liberalization and economic integration are the means of achieving the twin goals of economic growth and human development. There was unanimous agreement on these strategic goals. The Forum focused on trade liberalization and economic integration because they are viewed as the most effective means by which growth can be obtained. And as Enrique Iglesias, president of the Inter-American Devel-

opment Bank, succinctly stated: "Without growth, there will be no social justice."

To these goals, Forum discussion added that of sustainable development, "a new concept that for the first time fully integrates economic development objectives with environmental concerns." The Working Group on Sustainable Development acknowledged economic growth as fundamental to social development and environmental integrity. It pointed out that trade is a prerequisite to economic growth and that, without growth, poverty cannot be alleviated. It also called for "the integration of commercial and environmental objectives and the internalization of environmental costs and values."

The Setting

Conditions in the Western Hemisphere appear more promising than ever for a free trade and investment area. In his address before the Forum of the Americas, U.S. President George Bush reaffirmed his commitment to opening trade through the North American Free Trade Agreement and the Enterprise of the Americas Initiative:

> Before I leave office I want manufacturers in Cleveland to enjoy virtually the same access to markets in Monterrey as they now have in Minneapolis. . . .With new technologies, creators of services in Denver may be able to tap markets in Santiago as readily as those in Chicago. And I'll work to assure that government protection and excessive regulation don't stand in their way.

He noted this would build on the "historic free trade agreement with Canada." In confirmation of his commitment, he announced the relaxation of trade restrictions on high-technology exports worth $2.5 billion.

President Bush noted that "a free trade area comprising the United States, Mexico, and Canada would be the largest market in the world—360 million consumers in a $6 trillion economy." And taking on the

critics of free trade, he pointed out that, with economic reform and the return to democracy in Latin America, U.S. exports there have risen by nearly one-third in just two years—a much faster rate of growth than U.S. exports to Asia or Europe. "Trade with Mexico already supports hundreds of thousands of U.S. jobs."

Strong backing for the vision came from Thomas P. d'Aquino, president and chief executive of the Business Council on National Issues of Canada, in his introductory remarks:

> We are confronted with a challenging and exciting vision—a vision that began with a Canadian initiative a decade ago when business leaders in Canada boldly called for a comprehensive free trade agreement between Canada and the United States. We overcame skepticism and fear of change and together we formed the world's largest free trade area involving two countries. Now we welcome Mexico and the vision grows.

There were, however, cautionary comments about the cost of the adjustment process. As Marie-Josee Drouin, executive director of the Hudson Institute of Canada, remarked: "It now appears that many of the adjustment costs are much higher than had been earlier estimated, not only because of trade issues but also because the free trade agreement occurred at a period of monetary and fiscal restraint."

Several speakers traced adjustment and liberalization steps already taken in Latin America. The economic success of Chile, the bright prospects of Argentina and Mexico, and even the tentative steps taken by Brazil represent a sea change in economic thinking, which was well summarized by Enrique Iglesias, president of the Inter-American Development Bank:

> On the economic front the changes are there. . . .You know what we are doing in terms of opening the economies, of confronting international markets with new competitive capabilities, and what we are doing in terms of reforms of the state—slimming the state, privatizing the state, deregulating the state, and decentralizing the state.

The underlying theme was recognition that the traditional, government-led import substitution models were part of the problem leading to the lost decade of the 1980s. The rapidity with which thinking has changed in Latin America is astounding. As Henry Kissinger noted, "A few years ago, if anyone had talked about a North American free trade area, it would have been treated as a clever device of economic exploitation by the United States of its weaker neighbor to the south." But now, NAFTA is called a "Win-win situation" by Mexico's secretary of commerce and industrial development, Jaime Serra Puche, because "increasing competitiveness means increasing productivity, . . . wealth creation, . . . jobs, and . . . increases in the standard of living."

In Central America, as Nicolas Ardito-Barletta, general director of the International Center for Economic Growth, pointed out, the common market is beginning anew, this time based on open trade with the rest of the world. Inflation is lower, better fiscal and monetary policies are in place, and trade barriers are falling.

Even in Brazil, which has lagged behind the liberalization leaders—Chile, Mexico, and Argentina—change is in the wind. Francisco Gros, president of the Central Bank of Brazil, blamed "excessive government spending in a reckless search for growth at any cost" as the cause of the inflation Brazil has suffered. The government's operational deficit is being stabilized for 1991 at an expected level of 2 percent of gross national product (GNP). Structural reforms are under way to eliminate nontariff barriers to trade, attract foreign capital, normalize relations with the international financial community, privatize state-owned companies, institute fiscal reform, and "face up to some . . . sacred cows . . . such as the rule that allows workers to retire after thirty years of service no matter how young they are."

Attention was called time and time again to the fact that these economic reforms have been undertaken by democratically elected governments. This signifies popular support for change. As conference chair David Rockefeller remarked, "The people of this hemisphere changed something more important than their governments—they changed their minds. They brought into power—into intellectual dominance— a new leadership of ideas. And those ideas all begin with the word 'free,' free markets, free investment, free trade."

Of equal importance, however, was the deep concern repeatedly expressed in the working groups and by the speakers about the social impact of economic change. As Pedro Vallenilla, Venezuela's minister of development, stated, "Positive macroeconomic indicators do not always guarantee social well-being."

The working groups all recognized that the adjustment process involves high, although transitory, social and economic costs. Unless effectively dealt with, these costs may threaten the entire process. There were warnings about the potentially "destabilizing effects of domestic retrogression" (in Venezuela and Peru, for instance) and external events (failure of the Uruguay Round, the financial problems of Japan, or a stymied NAFTA).

Canadian participants, speaking from experience with the implementation of the Canada–U.S. Free Trade Agreement, pointed out that the change from a closed to an open system is likely to be costly. There will be losers as well as winners, "jobs will be lost, firms will go out of business, some industries will suffer, and particular areas of the country may fall into long-term decline."

The very real increase in the gap between the rich and the poor that is recognized to take place under structural adjustment was generally believed to be transitory. But participants emphasized dealing with it and not just assuming that it will pass. Pedro Vallenilla described Venezuela's efforts to guarantee stability through fifteen large-scale programs, involving commitments of $4 billion over five years, to modernize the delivery of health, education, and community services. Complementing this investment in human capital are proposed constitutional reforms to increase democratic participation.

The primary recommendation for addressing the costs of reform, made by a number of working groups and speakers, was major investment in education and training, both to prepare people for jobs in the evolving economies and to ensure their support for the reforms necessary to achieve economic growth and human development.

In describing Brazil's structural adjustment program, Francisco Gros, president of the Central Bank of Brazil, summarized a widely held feeling: "We have come to recognize that no matter how steep this cost, it will always be much lower than the cost of not adjusting."

The Stages of Integration

Economic blocs in the hemisphere. Henry Kissinger called the Enterprise of the Americas Initiative "the most creative policy of this administration." And President Bush reaffirmed his commitment to trade integration: "Open trade is vital to the United States, every bit as vital as domestic reforms to renew our systems of education, health care, government, and administration of justice."

From the Southern Cone Common Market (MERCOSUR or MERCOSUL) to NAFTA, the discussion was not whether to move toward freer trade and investment, but rather what the steps and their sequence should be. In examining integration strategies, Carlos E. Sanchez, vice minister of the economy of Argentina (speaking for Minister Domingo Cavallo) suggested that a good integration strategy for economic blocs is characterized by:

- complete elimination of tariff and nontariff barriers to intraregional trade
- a high level of automaticity in achieving this goal
- encouragement to members to further their structural adjustment programs
- a reduction in trade barriers with third countries

These features are broadly shared by the various integration efforts taking place in Latin America. By December 1994 trade within MERCOSUR is scheduled to be free. As Vallenilla noted, the Andean Pact established a free trade zone encompassing Bolivia, Colombia, and Venezuela on January 1, 1992. Peru and Ecuador are scheduled for incorporation later in the year. All export subsidies are to be eliminated on intraregional commerce by 1993, and external tariffs with an average of less than 10 percent are to be in place. Jaime Serra Puche made it clear that NAFTA "would be an open region freely consistent with GATT." Nicolás Ardito-Barletta pointed to the Central American Council of Ministers' decision to establish common customs at 20 percent by 1993 and to undertake tax harmonization, and he called for implementation of this decision.

Barletta pointed out the differences between the regional trade agreements of thirty years ago and those being pursued today. The current agreements are seen as a "complement to and not as a substitute for a more open trade-oriented policy" conceived on a more market-oriented basis rather than being "based on arbitrary production allocations that did not work."

Current thinking about the relationship between regional and world trading arrangements was made clear by Carlos Sanchez of Argentina:

> The economic gains from regional integration reach a maximum after which further gains can be attained only by integrating with the rest of the world.

In stating Argentina's support for the Enterprise of the Americas Initiative (EAI), Sanchez noted the complementarity to be gained by "integration with capital-abundant countries." He argued that the process of adherence should be based on a single agreement to which an increasing number of Latin American countries could accede. But most important, "EAI should be a constructive way of reinvigorating the multilateral trading system."

While most discussion focused on the major Latin American countries, panelist Oliver Clarke, publisher of *The Gleaner*, Jamaica, raised an important issue: Just how do other countries accede to the NAFTA or EAI? And what are the requirements to do so? Jamaica, he noted, has met many of the obvious requirements: a market-determined exchange rate, privatization, removal of price controls, and a good human rights record. Yet investments are being put on hold until its future in a world of trading blocs becomes clear. So, while the move toward building larger regional trading blocs proceeds, the lack of details about how they are to be expanded affects potential members.

Sanchez noted that Latin America's biggest worry is the increasing protectionism of the industrial countries. This concern was echoed by Panama's Nicolas Ardito-Barletta, who noted the importance to the Central American countries of being "given access to markets as they put their adjustment policies in place." He stressed the importance, once the NAFTA negotiations are completed, of extending the NAFTA concept to the Central American and Caribbean countries.

Two particular issues in the current NAFTA negotiations were raised: labor and the environment. As William C. Doherty, executive director of the American Institute for Free Labor Development (AIFLD), American Federation of Labor–Congress of Industrial Organizations (AFL–CIO), remarked:

> The AFL–CIO has every reason to question whether or not trade, as envisioned by the U.S. negotiators of an agreement with Mexico, is in the best interests of the American worker.

He went on to suggest that labor's concern is not really with the lowering of tariffs, which are already low, but with the prospect of making it "easier for business to transfer their facilities south of the border." The idea that "poverty is some kind of competitive advantage" was called "absurd," however, by panelist Marie-Josee Drouin, executive director of the Hudson Institute of Canada.

Consensus could not be reached on the proper approach to integrating economic and environmental issues in multilateral trade agreements either. The Working Group on Sustainable Development reported that "such integration is fully accepted in principle as a vision for the future, but there is not yet consensus that trade and environmental agreements should be negotiated simultaneously by the same parties." Echoing this thinking, panelist Purdy Jordan, president of the Association of American Chambers of Commerce in Latin America, endorsed the concept of conducting discussions on environmental issues parallel to, but not within, the free trade negotiations themselves.

Regional blocs and GATT. A concern expressed by many is whether trade blocs will strengthen the movement toward more open trade or simply be protectionism writ large.

> Some experts visualize the division of the world into three powerful blocs: our hemisphere, Fortress Europe and a new alliance of Japan and the Tiger economies of East Asia. If such a division ever did evolve, I am convinced it would be a disaster of comparable magnitude to the trade war that began

> in the late 1920s and which precipitated the Great Depression and the cataclysm of World War II.
>
> —David Rockefeller
> Chairman, Americas Society/Council of the Americas

> There is nothing exclusionary in our vision of open trade and economic integration in our hemisphere. Our aim is simply to lower barriers to economic freedom within and among the nations of the Western Hemisphere, not—I repeat, not—to create any barriers between ourselves and the nations of Africa, Europe, and Asia.
>
> —George Bush
> President, United States of America

The question of blocs and GATT was addressed by Arthur Dunkel, general director of GATT, noting that GATT makes provision for regional arrangements on the "assumption that they can contribute, under specific conditions, to the broader goal of multilateral trade liberalization." He pointed out that the rules applied in regional arrangements may be later extended to the multilateral level. Moves in the European Communities to establish an integrated market in services trade and its subsequent inclusion in the Uruguay Round of trade negotiations are an example.

Turning to the Uruguay Round, Dunkel commented that the sectors that have escaped postwar liberalization and been at the crux of the blockage in the Uruguay Round—agriculture, textiles, clothing, and steel—are traditionally the first ones to acquire importance in the development process. Thus, they are of great importance both to those developing countries that have abandoned inward-looking policies and to those countries that have abandoned central planning.

One of the reasons the Uruguay Round has been so difficult, Dunkel commented, is that the issues involve trade-distorting internal subsidies. Because domestic laws and regulations are at issue, the question of national sovereignty arises, making international negotiation tricky. Interestingly, several of the Latin American speakers supported regional trade agreements precisely because they would lock in economic reforms, including elimination of trade-distorting subsidies.

Stepping Stones to Integration

A virtuous circle: domestic reforms and trade integration.

> For a group of countries to create a sound integration, first they have to introduce far-reaching unilateral reforms.
>
> —Carlos Sanchez
> Vice Minister of the Economy, Argentina

> The MERCOSUL initiative is an integral and important portion of our structural reform program.
>
> —Francisco Gros
> President, Central Bank of Brazil

The belief that domestic reform must be a precursor to trade integration, expressed by Carlos Sanchez and Francisco Gros, was widely echoed. A number of speakers and working group reports noted the importance of structural adjustment policies as the underpinning for the next step of integration. The Working Group on Manufacturing called for progressive harmonization of individual country economic policies.

Integration agreements were also seen as contributing to one of the most important factors in economic growth—stability and predictability of domestic economic policies. While economic reforms may be required in order to open up an economy, it is also true that integration into a wider trading area can serve to reinforce the domestic policies. In other words, domestic structural reforms lead to steps toward integration, which, in turn, help solidify the internal policies. This phenomenon has been observed in the evolution of the European Common Market.

Economic policy reform.

> Finally it has been well understood in Latin America that a sustainable growth path is feasible only with price stability.
>
> —Working Group on Services and Capital Markets

As noted above, even Brazil, the epitome of indexation, has come to the conclusion that inflation is at the root of its problems. The Working Group on Services and Capital Markets noted that "inflation in the region must converge to levels already achieved by some industrial countries and some newly industrializing countries (NICs) in Asia," which means that even countries like Chile and Mexico have some distance to go.

To achieve this objective, the working group pointed out that countries in Latin America will have to go beyond conventional "balance-the-budget" policies and implement structural reforms such as privatization and deregulation in order to cut public sector imbalances and reduce the size of the state in the economy.

The working group held out the carrot of rewards: financial and capital markets attracting new funds with longer maturities, falling real interest rates, and growth of private savings (as public sector crowding out declines). These rewards for fiscal and monetary probity have already begun to emerge. After negative resource transfers throughout the 1980s, Latin America received a net increase in resource transfers of $7 billion in 1991, according to Enrique Iglesias. Also cited was Chile's reform of its social security system, which "paved the way for growth of private pension funds" and provides an "interesting example of how economic liberalization may also be geared toward social objectives."

The sequence of reforms is important. Panelist Thomas O. Enders, managing director for corporate finance, International Division, Salomon Brothers, Inc. suggested that "measures which result in large transfers of resources at the start of this process are very important." These measures could include liberalization of capital markets and reforms to permit corporations to borrow abroad or to raise equity capital abroad. He warned that these transfers would undoubtedly result in a large trade deficit. Such resource transfers occurred successfully, however, at the start of reconstruction and integration in postwar Europe, although then the source of funds was largely foreign aid.

Exchange rate stability was also cited as a precondition for a successful common market, as the European example demonstrates. Eliminating any remaining multiple exchange rate systems and avoiding clear misalignments of a currency's real value were listed as crucial steps in the move toward free market rates.

The working groups discussed and recommended policy steps necessary to move toward freer trade and investment. Among those cited were the following:

- deregulation (to cut input costs, to establish the competitive environment necessary for privatization, and to ensure that regulatory restraints do not constrain the growth of small and medium-size businesses)
- privatization
- efficient tax structure and collection practices
- avoidance of private monopolies
- nonexceptional treatment of agriculture (the Working Group on Agriculture argued that agriculture should not be given special treatment in internal or foreign trade; for example, no price intervention or marketing boards)
- standardization of financial disclosure requirements and auditing principles of Latin American corporations and coordination of different security exchange commissions in order to curb insider information
- safeguarding of intellectual property and removal of restrictions on technology flows
- nondiscriminatory treatment of foreign investment, including free repatriation of profits and dividends
- international dispute arbitration

The role of the state. As is clear from the above, the focus of attention was on reforming the state: reducing its size and reach, privatizing, deregulating, decentralizing. Participants clearly felt that the responsibility for growth lies with the private sector, as long as the state has established the proper environment.

A note of caution was sounded by panelist Rolf Luders, chief economist of the International Center for Economic Growth, when he pointed

out that simply reducing the role of government is not the answer. In fact, he called for strengthening the role of government in at least three areas: in providing for social services, in defining and defending property rights, and in regulating the functioning of some markets to bring private and social prices in line.

While noting that free trade and free markets will provide the right prices in most markets for goods and services, he pointed out that "there are some very, very significant exceptions, and in those cases free market–determined prices actually will lie—that is, they will give the wrong signal." Three examples cited were externalities, such as pollution, natural monopolies, and asymmetries of information (as in the financial sector). These call for an effective government regulatory role. The Working Group on Energy and Natural Resources addressed this point concerning regulation of externalities, pointing out that "environmental laws and policies should be scientifically based and need not be inconsistent with competitiveness, cost-effectiveness, and pro-growth." Luders' cautionary words of conclusion were, "Do not think that we are going to have development spontaneously; we still have a lot of work to do."

The creation of a team within the government to implement economic reforms was an issue raised by panelist Arnold Harberger, professor of economics at the University of California, Los Angeles. "If you want to look at different countries and weigh how strong and sustainable are their efforts, look to the team—as in Mexico." He noted the key role of "a team of people that sees things much the same way" in Chilean, Mexican, and Argentinian reforms. These countries' economic teams were trained principally in U.S. universities. The question he raised was, where are the Ecuadorian, Bolivian, and Venezuelan economic teams being trained?

Institutional conditions.

> Today the judicial, legal, and regulatory systems of a nation must themselves be globally competitive.
>
> —Working Group on Judicial, Legal, and Regulatory Issues

There was broad agreement that institutional structures that condition how decisions are made and enforced need to be reformed along with economic

policies if the consensual base necessary for long-term policy stability and broad-based participation is to be built.

While business forums most often focus on economic policies, it is becoming increasingly apparent in both the developing world and the ex-communist countries that there is an underlying set of institutions that is critical if markets are to function as expected. The three institutions focused on in the Forum discussions were: law-making procedures, the judicial system, and broad-based rights to private property. While these institutions may exist in name, they often bear little resemblance to the institutions of the same name that underlie the successful, democratic, market-oriented economies.

Law-making procedures. A good deal of attention was focused on the process of law making because of its role in ensuring democracy and the predictability and stability of economic policies. The return to democracy in Latin America was hailed, but there were also warnings that simple adherence to free elections did not constitute full democracy. A number of the working groups and speakers called attention to three additional components of democracy: participation, accountability, and transparency.

Participation means that all interested parties to a decision should be able to be heard and to have their concerns taken into account in the decision-making process. Work on the informal sector has suggested the economic cost of not providing a means for citizen input into the decision-making process. Accountability refers to the ability of citizens to hold public servants accountable for their actions. This ability, in turn, depends on access to relevant information. Transparency refers to the need for the decision-making process to be transparent, that is, for it to be clear *who* made the decision and *why* it was made. These conditions, it was believed, would move the process away from the interplay of special interest groups behind closed doors and out into the critical light of public review, thereby contributing to the stability and predictability of decision making and to the fairness of the process.

The judicial system. Judicial reform is "a critical first priority for Latin American countries," according to the Working Group on Judicial, Legal, and Regulatory Issues. The current judicial system was mentioned

time and again by various working groups and speakers as a deterrent to investment, competitiveness and efficiency, and, most important, justice. There was a call for reform in the way judges are selected, compensated, trained, and given life tenure. The goal as stated by the working group is "a well-qualified, independent judiciary, free of political influence and operating under the rule of law."

Criticism was also aimed at the U.S. legal system as "intricate and prone to uncertainty, leading to costly legal advice and litigation expense for Latin American companies trading with the United States." U.S. anti-dumping laws and procedures were felt to be particularly unfair.

Private property rights.

> The fact is, property rights are not so much for the rich and powerful—they can protect themselves. It is the poor, those who are desperately trying to accumulate property, some little bit of wealth and security—those who have no friends in high places and no strings to pull, who need the sheltering arms of the law.
>
> —David Rockefeller
> Chairman, Americas Society/Council of the Americas

A number of the working groups noted the importance of secure property rights—usually in the context of corporate investment. The Working Group on Judicial, Legal, and Regulatory Issues, however, focused attention on the importance of secure property rights for small businesses, "which can be powerful engines of growth and development." In fact, efforts to guarantee secure property rights for the poor, particularly during structural adjustment, could offer the poor a tangible benefit at a time of economic uncertainty.

Competitiveness.

> The main issue behind NAFTA, in my view, is the issue of competitiveness. How the North American region—through

> NAFTA—can become more competitive vis-a-vis other regions in the world.
>
> —Jaime Serra Puche
> Secretary of Commerce and Industrial Development, Mexico

Competitiveness is the means by which open trade and investment lead to growth and human development. Many Canadians at the Forum argued that the opportunity for improved competitiveness is one of the major attractions of a North American Free Trade Agreement. A good deal of attention, therefore, was devoted to what constitutes competitiveness. Interestingly, Jaime Serra Puche chose to devote most of his presentation to this question. He cited five sources of competitiveness:

1. *Permanent policies.*
2. *Economies of scale.* These are achieved through lowering average costs by servicing larger markets.
3. *Economies of scope.* These involve the ability to specialize in a given sector. Mexico's position as the top supplier of small refrigerators to the United States was cited as an example.
4. *Freedom to choose the right technology.*
5. *Market rules.* Although every market has some distortions, the objective is to reduce distortions as much as possible so that firms get the right signals from the market and, therefore, can make the right decisions.

The Working Group on Competitiveness emphasized the new roles that both business and government must take on. It suggested the importance of developing "cooperative arrangements in the home bases in order to become more competitive in the global market." This approach was designated a business network strategy and encompasses the creation of partnerships with suppliers, customers, competitors, and nonbusiness institutions.

Examining the role of government, this working group agreed that governments need to pay more attention to regional harmonization of tax policies, exchange rate policies, and monetary policies. Emphasis was also placed on deregulation, privatization, and efforts to reduce the cost of services (such as electricity) provided by the government.

The group noted that government, business, and labor must work together to improve competitiveness, but that business and labor must take the lead to upgrade skills and knowledge of the work force and to encourage improvements in a country's educational system.

In addressing the ability to compete in the global market, William C. Doherty of the AIFLD argued for development of an industrial policy that would "encourage long-term private business investment . . . [and] governmental development of infrastructure . . . supports basic research for commercial product development . . . [and] must include fully funded programs of skills training, higher education, and income maintenance for workers who lose their livelihoods because of changing trade patterns."

The Role of Business

> If companies base their investment and operating decisions on the assumption that barriers will soon disappear, then trade and investment liberalization will become a self-fulfilling prophecy.
>
> –Working Group on Manufacturing

Public and business support are critical for achievement of open trade agreements. While government can set the goal and start the process, it will not succeed without the sustained support of a business community that recognizes advantages to itself in the opening of trade and investment. As the Working Group on Sustainable Development pointed out, "The opportunity and responsibility fall on private industry and commerce."

Deep concerns about integration remain and bedevil the political process. No one expects it to be easy. As President George Bush remarked,

"In all our nations, powerful special interests cling to old ideas and privileges, promote protectionism, and resist expanded trade."

The Working Group on Sustainable Development focused on another aspect of the role of business in calling for business and industry to "adopt a new perspective on the use of energy and other resources and do so without the distortion of direct or indirect subsidies." It was pointed out that companies will have to become sensitive to the total impact of their products, "from inception to final disposition."

The Agenda

The objective of the Forum was to build support for open trade and investment in the Americas. The depth of interest and commitment among the business community of Canada, the United States, and Latin America was deep and palpable. Participants recognized the difficulties: initial negative social effects from the required structural adjustment, difficulties in the sequencing of the steps to be taken, skepticism from key groups such as labor, the need to correctly define the role of government, and the need to make institutional as well as economic policy reforms.

A review of Forum discussion provides the outline of an agenda for action, a list of those issues on which business needs to focus attention, to reach the goal:

- opposition to protectionism, whether in one's own country or abroad
- support for regional trade opening and efforts to ensure that trade blocs are stepping stones to global integration
- progressive harmonization of individual country economic policies to achieve macroeconomic stability including continued efforts for price and exchange rate stability
- safeguarding of intellectual property, nondiscriminatory treatment for foreign investment, and international dispute arbitration

- rethinking of the role of the state, to reduce its direct involvement in the economy through deregulation and privatization, but to increase its role in dealing with social conditions and strengthening the market through preventing price distortions
- institutional reforms in law-making procedures, securing of private property rights, and reform of the judicial system and continued attention to what makes a product or firm competitive in international markets
- integration of commercial and environmental objectives and the internalization of environmental costs and values
- support for major investment in education and training

While some of these are steps business can undertake itself, most are ones in which business must play a role in the political process. This new role must be different from that of the past, when, as David Rockefeller noted, "All too often, those who have achieved success in the marketplace have looked to government to secure and maintain their advantage—with regulations, trade protection, and special favors of all kinds."

As the Forum closed, David Rockefeller issued a challenge to the business community:

> In the last eight years of this century, you—the entrepreneurial members of the business community throughout the hemisphere—will have to be crusaders for the cause. It is you who will have to convince the holdouts among your business colleagues that we must put our long-term interests above the immediate needs of a particular enterprise. It is you who will have to "stay the course" when the politicians, under an increasing barrage of complaints and inducements from various pressure groups, begin to waffle. . . . Business will have to lead in preparing the ground so the seeds of economic freedom can take root.

Appendix A

Program of the Forum of the Americas

WEDNESDAY, APRIL 22, 1992

8:00–9:00 A.M. Registration

9:00–10:30 A.M. **Concurrent Working Groups**
Morning Session I

1. **Agriculture**
   Cochairmen
   OCTAVIO CARABALLO, Chairman and Chief Executive Officer, Bunge y Born, *Argentina*
   WHITNEY MACMILLAN, Chairman and Chief Executive Officer, Cargill, Inc., *U.S.A.*
   Project Director
   ALEJANDRO VEGH VILLEGAS, Executive Director for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay, International Monetary Fund, *Uruguay*

2. **Competitiveness**
   Cochairmen
   LUIS BERRONDO, Executive Vice President, Organizacion Mabe, S.A. de C.V., *Mexico*

MARSHALL A. COHEN, President and Chief Executive Officer, The Molson Companies Limited, *Canada*

Project Director

JOSEPH D'CRUZ, Associate Professor of Strategic Management, University of Toronto, *Canada*

3. Energy and Natural Resources

Cochairmen

C. ROBERT BLACK, President, Texaco Latin America/West Africa, *U.S.A.*

LUIS VALLENILLA, Chairman, Sociedad Financiera, *Venezuela*

Project Director

J. MICHAEL TREVINO, Manager, Public Affairs, Texaco Latin America/West Africa, *U.S.A.*

4. Judicial, Legal, and Regulatory Issues

Cochairmen

JOSE GRANA, Chairman and Chief Executive Officer, Grana y Montero, *Peru*

DANIEL R. MARTIN, President and Chief Operating Officer, E-Z-EM, Inc., *U.S.A.*

Project Director

ROBERT M. SHERWOOD, International Business Counselor, *U.S.A.*

5. Manufacturing

Cochairmen

CARLOS ARTURO ANGEL, President, Colombian National Association of Industrialists, *Colombia*

REUBEN MARK, Chairman, President and

Chief Executive Officer, Colgate-Palmolive Company, *U.S.A.*

Project Director

GARY HUFBAUER, Marcus Wallenberg Professor of International Financial Diplomacy, Georgetown University and Visiting Fellow, Institute for International Economics, *U.S.A.*

6. Services and Capital Markets

Cochairmen

JOHN M. HENNESSY, President and Chief Executive Officer, CS First Boston, Inc., *U.S.A.*

ALVARO SAIEH, Chairman and Chief Executive Officer, Bancos de Osorno y La Union, *Chile*

Project Director

CARLOS LANGONI, Director, Centro de Economia Mundial Fundacao Getulio Vargas, *Brazil*

7. Sustainable Development

Cochairmen

ISRAEL KLABIN, President, Brazilian Foundation for Sustainable Development and Klabin Irmaos & Cia, *Brazil*

JOHN A. LUKE, JR., Executive Vice President, Westvaco Corporation, *U.S.A.*

Project Directors

MARCIO FORTES, Director, Business Council for Sustainable Development, *Brazil*

R. SCOTT WALLINGER, Senior Vice President, Westvaco Corporation, *U.S.A.*

10:30–10:45 A.M. Break

10:45–12:30 P.M.	**Concurrent Working Groups** **Morning Session II**
12:30–2:30 P.M.	**Luncheon**
12:30–12:40 P.M.	**Welcoming Remarks** **GEORGE W. LANDAU**, President, Americas Society/Council of the Americas, *U.S.A.* **ANTONIO DEL VALLE**, President, Consejo Empresario de America Latina, *Mexico* **THOMAS P. D'AQUINO**, President and Chief Executive, Business Council on National Issues, *Canada*
1:45–2:30 P.M.	**Luncheon Address** Introduction: **DAVID ROCKEFELLER**, Chairman, Americas Society/Council of the Americas, *U.S.A.* **HENRY A. KISSINGER**, Kissinger Associates, *U.S.A.*
2:30–4:00 P.M.	**Concurrent Working Groups** **Afternoon Session I**
4:00–4:15 P.M.	Break
4:15–5:30 P.M.	**Concurrent Working Groups** **Afternoon Session II**
6:00–9:00 P.M.	**Kennedy Center**
6:00–8:00 P.M.	**Reception**
8:00–9:00 P.M.	**Concert: Octeto Academico de Caracas**

THURSDAY, APRIL 23, 1992

8:00–8:30 A.M. Registration

8:30 A.M.–12:00 M. **Plenary Session I**

8:30–8:35 A.M. **Introductory Remarks**
DAVID ROCKEFELLER, Chairman, Americas Society/Council of the Americas, *U.S.A.*

8:35–9:45 A.M. **Session I**
The World Trading System: Blocs versus GATT
Session Leader
RITA E. HAUSER, Board Member, Americas Society, *U.S.A.*
ARTHUR DUNKEL, Director General, GATT
"The Uruguay Round: Prospects for Successful Completion"
CARLOS E. SANCHEZ, Vice Minister of Economy, *Argentina*
"Free Trade in the Hemisphere Enhances Prospects for Global Trade"

9:45–10:00 A.M. Break

10:00 A.M.–12:00 M. **Session II**
Regional Agreements in the Western Hemisphere
Session Leader
GEORGE W. LANDAU, President, Americas Society/Council of the Americas, *U.S.A.*

10:00–10:30 A.M. **NICOLAS ARDITO-BARLETTA,** General Director, International Center for Economic Growth, *Panama*

"Introduction and Caribbean and Central American Agreements"

10:30–11:00 A.M. **PEDRO VALLENILLA**, Minister of Development, *Venezuela*
"The Andean Common Market"

11:00–11:30 A.M. **FRANCISCO GROS**, President, Central Bank, *Brazil*
"The Southern Cone Common Market (MERCOSUR)"

11:30 A.M.–12:00 M. **JAIME SERRA PUCHE**, Secretary of Commerce and Industrial Development, *Mexico*
"The North American Free Trade Agreement"

12:00 M.–12:30 P.M. **Reception**

12:30–2:00 P.M. **Luncheon**

1:15–2:00 P.M. **Welcoming Remarks**
ENRIQUE IGLESIAS, President, Inter-American Development Bank

Award Presentation
PURDY JORDAN, President, Association of American Chambers of Commerce in Latin America, presents award to David Rockefeller, Chairman, Americas Society/Council of the Americas, for improving inter-American relations.

Luncheon Address
Introduction: **GEORGE W. LANDAU**, President, Americas Society/Council of the Americas, *U.S.A.*

DAVID ROCKEFELLER, Chairman, Americas Society/Council of the Americas, *U.S.A.*
"An Agenda for the Future"

2:00–2:30 P.M. Break

2:30–6:00 P.M. **Plenary Session II**

2:30–4:15 P.M. **Session III**
A Single Market in the Hemisphere: Is It Realistic?
Sectoral Working Group Reports Presented by Cochairmen: Agriculture, Energy and Natural Resources, Manufacturing, and Services and Capital Markets.

Panel Response
Session Leaders
ANTONIO DEL VALLE, President, Consejo Empresario de America Latina, *Mexico*
WILLIAM R. RHODES, Vice Chairman, Citibank, N.A., *U.S.A.*

Panelists
MARIE-JOSEE DROUIN, Executive Director, Hudson Institute of Canada, *Canada*
THOMAS O. ENDERS, Managing Director for Corporate Finance, International Division, Salomon Brothers Inc., *U.S.A.*
ARNOLD HARBERGER, Professor, Department of Economics, University of California/Los Angeles, *U.S.A.*

4:15–4:30 P.M. Break

4:30–6:00 P.M. **Session IV**
Confronting the Policy Issues
Issue Working Group Reports Presented by Cochairmen: Competitiveness, Judicial, Legal, and Regulatory Issues, and Sustainable Development.

Panel Response
Session Leader
THOMAS P. D'AQUINO, President and Chief Executive, Business Council on National Issues, *Canada*
Panelists
OLIVER CLARKE, Chairman and Managing Publisher, The Gleaner Company, Ltd., *Jamaica*
WILLIAM C. DOHERTY, JR., Executive Director, American Institute for Free Labor Development, *U.S.A.*
PURDY C. JORDAN, President, Association of American Chambers of Commerce in Latin America, *U.S.A.*
ROLF LUDERS, Chief Economist, International Center for Economic Growth, Instituto de Economia, Universidad Catolica de Chile, *Chile*

7:00–8:00 P.M. **Reception**

8:00–10:00 P.M. **Dinner**

9:00–10:00 P.M. **Dinner Address**
Introduction: **DAVID ROCKEFELLER**, Chairman, Americas Society/Council of the Americas, *U.S.A.*
GEORGE BUSH, President of the United States of America

Appendix B

Working Group Papers

AGRICULTURE

Cochairmen

Octavio Caraballo
Chairman and Chief Executive Officer
Bunge & Born

Whitney MacMillan
Chairman and Chief Executive Officer
Cargill, Inc.

Project Director
Alejandro Vegh Villegas
Executive Director for Argentina, Bolivia, Chile,
Paraguay, Peru, and Uruguay
International Monetary Fund

The present Uruguay Round is endeavoring to extend the rules of the General Agreement on Tariffs and Trade (GATT) to agriculture and services. At this time the outcome of the round is in doubt. Our group felt the standard for a successful round in agriculture would be the standard set by the Cairns group (the group of countries within GATT that neither taxes

nor subsidizes agriculture). This is unlikely to occur in 1992. The majority felt that this failure would not necessarily result in a setback for the general process of free trade in the Western Hemisphere.

Careful consideration was given to the North American Free Trade Agreement (NAFTA), the Southern Cone Common Market (MERCOSUR), and other regional trade arrangements. It was felt that a successful conclusion of NAFTA would hasten and deepen the movement toward freer trade in the Americas. There was a general consensus that the presidents of the United States and Mexico and the prime minister of Canada should initial NAFTA before the U.S. election in November 1992. The treaty would not be submitted to the U.S. Congress until 1993.

In the case of MERCOSUR, the consensus of the group was that progress was being made at the scheduled pace as far as dismantling internal tariffs. Some participants expressed concern about the disparities in economic policies and inflation rates between the member countries, while other participants were concerned about the height of the common external tariffs.

Reference was also made to the Venezuelan-Colombian bilateral trade agreement, which is working satisfactorily, and to the Chile-Mexico free trade arrangement, which is also performing well.

The working group was encouraged by these various efforts and agreed that there was a good possibility for convergence of these different preferential trading systems into a general regional arrangement for the entire Western Hemisphere that would in turn be quite compatible with world trade liberalization.

The group agreed that effective operation of the judicial system and legal security of land tenure are issues of general concern in most Latin American countries. It is common in Latin America to find specific legislation that violates general constitutional principles, and appeals to the courts for judicial protection are rarely successful. The executive branch in many Latin American countries is also a frequent transgressor of both constitutional and legislative texts in its daily and generous output of decrees and resolutions.

The security of land tenure and protection from explicit or implicit confiscation is another area of concern, although some progress has been made. Special mention should be made of the recent measures taken by the

Mexican government that provide for greater protection of private ownership of land and elimination of the system of collective ownership and operation known as the *ejido*, which has its origin in pre-Spanish times.

The group felt that Latin American governments should give high priority to these institutional matters.

In itself, the rationality of the new economic policy in Latin America works in favor of agriculture. However, it is useful to emphasize in an explicit way the basic principles that should guide state policy in this sector. The general principle is what we denominate the "nonexceptionality of agriculture;" that is, in internal and foreign trade, in taxation, and in other areas of economic policy, agriculture should be considered one of many categories of economic activity, not to be dealt with in a special way or discriminated in favor of or against.

A first application of this general principle of nonexceptionality leads us to conclude that the objectives of economic policy should be exactly the opposite of those of the Common Agricultural Policy (CAP) of the European Communities. The whole expensive and wasteful framework created in Europe under the rules of CAP, which has proved so difficult to dismantle, is the consequence of an assumption of exceptionality for agriculture.

A second application of the general principle is neutrality in taxation. Equality and fairness among different economic activities, efficiency in the allocation of resources, and simplicity in the tax code should be the guidelines for tax policy, and all of these objectives work in opposition to special treatment for agriculture in the area of taxation. This does not mean that within the same basic principles some special mechanisms of tax collection could not be implemented to provide, as in other areas, for the special circumstances of the taxpayer. This is a practical problem of great interest in the field of policy implementation.

The third application of the general principle of nonexceptionality should be the absence of price intervention in the market by the state in the case of agricultural goods and foodstuffs. In particular, it is of the utmost importance to eliminate, as soon as possible, the state monopolies and marketing boards that have resulted in much damage to producers, consumers, and even the state treasury in many cases.

These basic guidelines do not preclude the possibility of providing subsidies for some groups of farmers that may be deemed necessary

because of political, social, or environmental considerations. In this case, the principle should be that these subsidies are provided through direct income support, delivered by the treasury of the central government or by local authorities and based on budgetary allocations approved in advance. These subsidies would have no direct influence on prices and production levels. This is what in the United States has been called "decoupling;" it is also one of the approaches being considered for the gradual dismantling of CAP in Europe.

The group recommends the adoption of these basic guidelines in the process of designing economic policies in the countries of the Western Hemisphere.

The group felt that careful distinction should be made between non-tariff trade barriers that are only an excuse and a substitute for protection and those that are the result of legitimate concern for the health of livestock and humans. This is a very difficult task but cannot be avoided. It is further complicated by the fact that technological evolution in both the techniques of production and the forms of consumption result in a dynamic situation; therefore the legitimacy of these health measures is an issue that has to be revisited periodically.

The working group also agreed on the necessity for harmonization and simplification of bureaucratic practices and customs procedures having to do with agricultural trade.

COMPETITIVENESS

Cochairmen

Luis Berrondo
Executive Vice President
Organizacion Mabe

Marshall C. Cohen
President and Chief Executive Officer
The Molson Companies Limited

Project Director
Joseph R. D'Cruz
Associate Professor
Faculty of Management
University of Toronto

There was a general consensus in this working group that the countries of the Western Hemisphere are moving toward an open trade and investment framework at varying rates. Some are moving quite rapidly and have made significant progress, while others will be slower. Nevertheless, there was general agreement that these developments are healthy and should be encouraged. The overall benefits from an open market system are significant.

The question therefore becomes, "What adjustments will be necessary to make these moves successful?" The working group developed a set of recommendations about changes in business practices, government policies, and other social institutions.

Overall, a serious note of concern was struck about the need to pay attention to the down side of adjustment. The change from a closed market to an open system is likely to be costly. In each country there will be winners as well as losers. In the long run the gains will be substantial and will outweigh the losses. In the short run, however, there will be significant hardship. Jobs will be lost, firms will go out of business, some industries

will suffer, and particular areas of the country may fall into long-term decline.

The experience in Canada with the free trade agreement (FTA) with the United States offers some lessons the Latin American countries may wish to keep in mind. One is that the adjustment costs were seriously underestimated by the deal's proponents. Some of the post-FTA problems can be traced to the global recession whose onset coincided with the signing of the FTA. Others were due to a lack of competitiveness of parts of the Canadian industrial structure. Still others were due to a lack of preparedness in the business community for the pace of the impact of the FTA.

Businesses will need to adopt new strategies to compete effectively in an open economy. One major element of the new strategies that was extensively discussed in this working group was the need to adopt a new paradigm for doing business. The distinctive aspect of the new paradigm is the extensive use of strategic alliances. In an open market, no firm has all the resources and competitiveness to do everything itself. Each firm needs to develop partnerships with suppliers, customers, competitors, and nonbusiness institutions in the infrastructure. Thus, competitive firms must learn to build and sustain business networks for comp titive advantage.

The theme of a business network strategy must be the development of cooperative arrangements in the home base in order to become more competitive in the global market. The combination of cooperation and competition is a form of business strategy that is significantly different from the strategies that worked in the closed market system.

Equally important will be the changes in the role of government that must be made to make a successful transition to an open market system. The working group agreed that governments should pay more attention to regional harmonization of tax policies, exchange rate policies, and monetary policy. Other policies should include deregulation, privatization, and efforts to reduce the cost of services provided by the government (such as electricity). There must be an emphasis on education and training. Governments themselves have to learn to become more global in their outlook, to understand what is happening in other countries, and to work together with labor and the business community to improve competitiveness. Governments must also become more aware of the nontariff barriers that their country's firms face in the developed country markets.

In all these areas, business must take a leadership role. Flagship firms must emerge both from the local businesses of the country and among multinationals who have operations there. It is particularly important for the chief executive offices of the country's flagship firms to take the initiative in creating and developing local business networks that can compete globally, to encourage governments to continue progress toward opening markets and to adopt policies that will make the system workable, to work with labor union leaders in efforts to upgrade the skills and knowledge of the work force, and to encourage the country's educational system to improve the quality of its efforts.

ENERGY AND NATURAL RESOURCES

Cochairmen

C. Robert Black
President
Texaco Latin America/West Africa

Luis Vallenilla
Chairman
C.A. Cavendes
Sociedad Financiera

Project Director
J. Michael Trevino
Manager
Public Affairs
Texaco Latin America/West Africa

Preamble

Ongoing political and economic changes in the Americas, coupled with a renewed hemispheric drive toward more open and reciprocal trade and investment policies being pursued through various regional free trade agreements, present numerous opportunities for growth and investment within the context of longstanding historical sovereign principles. Characterized by liberalization and deregulation, including the privatization of state-owned enterprises, these political and economic changes, if sustained, could attract new investments in energy and natural resource projects and help establish a business environment that promotes economic growth and general prosperity.

Increased investment in the varied energy and natural resource sector promotes domestic growth through additional revenues, expanded employment opportunities, and the development of the domestic infrastructure.

Promoting Economic Growth

As economies in the hemisphere grow, the demand for energy (electricity and fossil fuels) and mineral resources will expand at even higher rates. This growth, especially energy consumption, should be carefully analyzed. During the 1980s, in spite of a severe recession in Latin America, there was a continuous growth of oil consumption. Thus, the existence of policies that continue to limit access to potential reserves and domestic and foreign markets; seek to control product prices and profit margins; subsidize public sector producers, petroleum products, and energy; or utilize taxes and economic sanctions to achieve foreign policy objectives may limit the progress to be made. Such impediments may constitute a competitive disadvantage locally and regionally in the global marketplace.

Continued growth, competitiveness of the region, and the need to ensure hemispheric energy security all require that governments formulate policies that attract investment from both international and domestic sources rather than increase indebtedness. An advantage of investments is that the risk is not borne by the government and its people but rather by the investor. In today's global economy the competition for capital is intense, and therefore the policies must be competitive.

Investor Requirements

Since the energy and natural resource sector typically carries high risks and is capital intensive, it requires investment policies that are transparent and established in law. The sanctity of contracts must be observed by both the government of the host country and private investors. An investment based on a contract often becomes uneconomical when the host government unilaterally changes the contract with the investor.

In addition, investors require policies that safeguard intellectual property, permit an attractive return on investment and free repatriation of profits and dividends, and allow for a pro-growth nondiscriminatory tax regime and international dispute arbitration.

Since the electricity sector is frequently a state monopoly that provides a service, private investment flows require a stable regulatory framework

established by law in order to provide reliable and economical service to the consumer and ensure an attractive return on investment.

Recognizing the need to protect the environment, environmental laws and policies should be scientifically based, and need not be inconsistent with competitiveness, cost-effectiveness, and a pro-growth strategy. Investors have the responsibility to be pro-active in the development of sound environmental practices.

Once firmly established, these policies can improve the hemisphere's competitive ability to attract its share of the limited capital available worldwide. In the energy and natural resource sector, such a competitive environment could lead to the establishment of mutually beneficial associations involving foreign and domestic investors.

Investors in energy and mineral resource projects require security under law, within historical principles, of the right to explore, develop, and market the resources produced. In addition, investors require access to domestic and international markets, transportation and distribution systems, and market-related prices, which are essential to maintain a competitive energy and mineral resource sector. Such conditions encourage continued investment and increase the likelihood of a fair return for all parties.

The host country would directly benefit from increased domestic and export revenues, new business and employment opportunities, expanded domestic markets, and sustained economic growth. Ancillary benefits resulting from associations with international companies include access to advanced technologies, access to markets, high-quality competitively priced products, training of the local work force, development of infrastructure, and a worldwide recognition of established investment policies.

Long-Term Associations in Energy and Natural Resources

Today the need to ensure the optimal recovery of natural resources makes the "so-long-as-production-continues-in-paying-quantities" contract model commonly used in the United States an alternative. Such a model envisions the development and timely application of new technologies that may maximize both recovery rates and return on investment. Continued

research and development increases the availability of new technologies whose application and benefits should not be limited by the temporal nature of contracts.

In addition, the existence of long-term associations between host countries and private investors can result in new opportunities in areas other than the exploration and production of hydrocarbons, such as in marketing petroleum products and natural gas. For example, Venezuela by itself, as a major long-standing producer, is a natural area that should benefit from such long-term associations. Furthermore, long-term associations can help develop regional markets throughout the hemisphere. For example, in the Southern Cone there is a potential to export surplus Argentine and Bolivian gas to energy-importing Brazil, Chile, Paraguay, and Uruguay.

Another potential regional market that could benefit not only from long-term associations but also from investor access is the North American Free Trade Agreement (NAFTA). NAFTA offers an opportunity for the countries of that region to find new reserves, expand production of existing reserves, and develop markets for petroleum and mineral products.

Recommendations

Given the proper incentives and a business environment that is becoming increasingly open, the hemisphere has the potential capacity to produce and bring to market secure supplies of energy and mineral resources in an environmentally sound and responsible manner. Therefore we recommend that both host countries and private investors benefit from establishing long-term associations, taking into account not only the feasibility of the project, but also the needs of the host country and the project's contribution to its long-term development. Investors also offer the technical and managerial capabilities to train and fully utilize the hemisphere's human resources in developing its natural resources, which are essential to promoting future economic growth and prosperity.

JUDICIAL, LEGAL, AND REGULATORY ISSUES

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The primary question for any nation today is whether it wants to encourage traders and investors—those who bring goods and services to the public—to function so they bring optimum benefits to that country. Today, this question includes the highly important subissue of whether the nation wishes to participate fully in the global explosion of technology now advancing at ever-increasing speed. It is also accompanied by subissues relating to matters such as pollution, consumer safety, product quality, and noninflationary prices.

If the answer is yes, a country will value those conditions that facilitate, rather than retard, the activities of traders and investors. Experience shows that traders and investors function most efficiently and serve the public best when they can mobilize capital, labor, and resources to apply more competitive technology to their products and services. It is increasingly recognized by the man in the street, and even by economic theory, that new technology drives economic growth and accounts for relative change in the wealth of nations. Private traders and investors—both national and foreign, both large and small—are the agents that chiefly bring new technology to bear in an economy.

As countries take initial steps to open their economies, typically with tariff reductions, they often experience fewer benefits than expected. This

leads to suspicion that opening an economy is not the right prescription for greater growth. Closer inspection usually shows that secondary conditions must also be adjusted to optimize the activities of traders and investors. Prominent among these secondary conditions are the legal and regulatory institutions by which rules are made, disputes resolved, and both economic and political participation encouraged—or restricted. Although little noticed, flaws in these institutions can be major impediments to trading and investing since they increase transaction costs, render planning uncertain, and limit development both of private firms and of a broad consumer base.

Today, the judicial, legal, and regulatory systems of a nation must themselves be globally competitive. Legal and regulatory institutions best facilitate trade and investment when they provide (1) predictability, (2) participatory rule making to balance interests, and (3) security of person and property. For the most part, Latin American countries have inherited authoritarian systems of government. Mercantilism, rather than democratic capitalism, has characterized their economic systems until very recently. As a result, their institutional frameworks for property creation, rule making, and dispute resolution tend to be authoritarian. Given this background, their mechanisms for administration of justice, when unchecked by democratic influence, have tended to produce seriously uneven results, incompetence, and delay, although there are certainly examples to the contrary. At the same time, the legal system of the United States is both intricate and prone to uncertainty, leading to costly legal advice and litigation expense for Latin American companies trading with the United States. Many Latin American exporters feel that U.S. anti-dumping laws and procedures raise unfair barriers to their products and services.

Judicial reform is a critical first priority for Latin American countries. This includes reform of the ways judges are selected, compensated, trained, and given life tenure, in order to create a well-qualified, independent judiciary, free of political influence and operating under the rule of law. Closely related to this is the need for constitutional reform. A second priority is to take steps to achieve transparency in judicial and regulatory decision making. A third is to reform and streamline the alternative dispute resolution mechanism of arbitration so it attracts greater use. This calls for abandonment of the Calvo doctrine of national sovereignty, which is largely anachronistic today in the context of regional integration. With

these principal reforms in place, much more that is positive will happen in the economies of the Americas, and as a critical by-product the legitimacy of elected governments will be enhanced.

Predictability

Private traders and investors perform best when, in their planning, they are able to predict with some degree of accuracy the manner in which legal disputes and administrative proceedings will be concluded. Predictability means at a minimum that corruption and special influence do not determine results. Predictability also requires transparency, that is, the ability to know the reasoning behind judicial and administrative decisions. Thus, judges and administrators are required to give reasons for decisions and those reasons are made known to the public. Judicial review of administrative decisions is a related cardinal factor in predictability.

Participatory Rule Making

Rational balancing of competing interests when rules of all kinds are being made provides traders and investors with a context in which they can anticipate rule changes and better assess the risks of activity they propose to undertake. This implies opportunities for competing interests to be heard, with assurance that fair and reasonable balancing of those interests will be achieved. At the legislative level of rule making, it implies mechanisms for the receipt of relevant information by members of the legislature and their staff. Staggered terms for elected legislators would aid in policy continuity.

Security of Person and Property

Security of person and property under the law is the underpinning for optimum investor and trader contribution to economic development. Broad and secure rights are particularly crucial for small businesses, which

can be powerful engines of growth and development. Such rights also develop the consumer base, which in turn drives economic growth. In concept, property is constituted through the creation of rights that mix private and public interests. Individuals may build homes, for example, but must observe building codes and zoning laws. Public needs and concerns are observed, while private decision making in the mobilization and use of resources is respected. This concept includes the ability to make and enforce private contracts. It also includes the right to create and maintain intellectual assets that are intangible in nature.

Intellectual property systems tend to be viewed currently as a matter of trade confrontation. When seen as a critical element of a country's technological infrastructure, however, modern intellectual property systems can be better appreciated for the stimulus they provide to investors and traders who introduce some advanced technology into a country's economy. By creating fair and adequate treatment for inventions, proprietary information, and creative expression, intellectual property systems offer opportunities to all who seek to advance technology. This is a critical stimulus for investors of all nationalities.

When these three conditions—predictability, interest balancing, and security of person and property—are securely in place, traders and investors can function at their greatest efficiency. Transaction costs are reduced so they do not unduly discourage business activity and impede risk assessment, which is so crucial to business planning. This critical stimulus for investing will bring prosperity and growth to nations astute enough to grasp these benefits.

Economic Integration and System Stability

In recent years many Latin American countries have adopted democracy and adjusted to open economic policies. To sustain development and attract more investment, it is important to stabilize these achievements. The distinct risk of pendular political changes every few years in individual countries could be minimized through the economic integration process. In other words, integration can not only serve as the path to open trade, but it also offers an anchor to stabilize economic and legal reforms.

Those firms able to bring more competitive technology to bear often drive out firms with less competitive technology. Understandably, fear of failure creates pressure to retard economic and legal reforms. The final major need, then, is to fully anticipate and appreciate those overall benefits from economic growth that make opening the economy worthwhile and to adjust those secondary institutional conditions, particularly in regard to the legal and regulatory process, that will otherwise hinder the opening of national economies and impede the ability of existing traders and investors to successfully adjust to an environment of greater technological competition. Examples of successful adjustment made by business communities in the face of economic opening are found in Chile, Mexico, and, at an earlier period, Italy.

There is a danger that important symbolic and practical gains will be lost if the Enterprise for the Americas Initiative taken by President Bush is not advanced with all deliberate speed. Moreover, the posture of the U.S. anti-dumping law toward Latin American exports generates negative signals at a time when this creative initiative is seeking its destiny.

Finally, the role of business and professional people in asserting and implementing the needed judicial, legal, and regulatory system changes must be stressed. As individuals and through associations, their part can be crucial. They are the ones with the knowledge of what is needed to make wise system reforms. They are often the ones best able to explain the benefits that will flow from open trade and investment and from the indicated judicial, legal, and regulatory reforms.

MANUFACTURING

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As a prelude to sharing the findings of the Working Group on Manufacturing, we wanted to place in perspective the forces that are moving us toward a new U.S.–Latin America union. During the past decade, we have seen the transition from a bipolar world, with the Soviet Union and the United States as the chief protagonists, to a multipolar one, with an increasing number of key players. From an economic trading bloc perspective, the European Common Market is a reality, with the new Eastern European democracies clamoring for admission. Coincidentally, Japan and its neighboring Asian partners are moving together to a new level of technology and product competitiveness.

It is obvious that the United States, Canada, and Latin America must also move toward an economic union, if we are to remain competitive, increase our share of world trade, and significantly improve social well-being throughout. In an effort to prepare an outline for this transition, we have examined the institutional and policy issues and attempted to define a calendar for change that would take advantage of the very positive political and economic climate that exists today.

Institutional and Policy Issues

1. Macroeconomic stability incorporating both monetary and fiscal discipline is an essential precondition for free trade. Without it, a nation's manufacturing sector will be exposed to alternately manic and depressive episodes: manic when the real exchange rate is undervalued, depressive when the real exchange rate is overvalued. This situation will inevitably erode the political constituency for free trade.

2. The key element in successfully negotiating free trade is sustained public and business support. Experience teaches that government leadership can ignite the engine, but it cannot fuel the long journey toward economic integration. Business and government cooperation in the process is essential. Unless the business community sees the benefits of open markets—faster economic growth and the delivery of more goods to more people at cheaper prices—and unless leading business firms continuously pressure government to overcome obstacles, the process will stall. But if companies throughout the hemisphere base their investment and operating decisions on the assumption that barriers will soon disappear, then trade and investment liberalization will become a self-fulfilling prophecy.

3. The first trade priority of manufacturing firms throughout the Western Hemisphere (and indeed throughout the world) should be the successful conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations. Every effort should be made to achieve decisive tariff cuts, to dismantle industrial-country protection for "sensitive" sectors, to eliminate nontariff barriers, to liberalize government procurement, and to secure full protection of patents, copyrights, trademarks, and trade secrets. In the future, as the Uruguay Round reforms are implemented, the construction of a Western Hemisphere Free Trade Agreement

(WHFTA) will complement and reinforce the GATT multilateral trading system, as well as the regional integration process.

But all parties should recognize that much can be accomplished by business and government leaders prior to the accession of all Latin nations to a free trade accord. The agenda of Latin trade and investment liberalization should not be delayed simply because the Uruguay Round and the North American Free Trade Agreement (NAFTA) are slow to reach conclusion.

4. Freer trade for manufactured goods in the Western Hemisphere will require new attitudes on the part of leading manufacturing firms and business associations both in Latin America and in North America. The old-style approach of marshaling government agencies to protect local markets—for example, through high tariffs, strict quotas, preferential government procurement, and slanted technical standards—is now in disfavor and should be abandoned altogether. Business should drive the process for deregulation to cut the costs of their own inputs, such as raw material, intermediate components, machinery and equipment, telecommunications, energy, and transportation. In particular, regulatory restraints that inhibit the growth of small and medium-sized businesses in Latin American must be relaxed. To benefit from free trade, manufacturing firms throughout Latin America will need to practice specialization, by acquiring cheap inputs from other firms at home and abroad and by selling into profitable niche markets throughout the world.

Calendar

Considering the institutional and policy issues addressed here, we have attempted to outline a calendar of activities to act as a blueprint of progress, from which we can measure our dedication to the task ahead.

Near term (5 to 7 years).

1. A progressive harmonization of individual country economic policies to achieve macroeconomic stability should take place. While the group felt this was a crucial requirement for success, it was their strongly held opinion that other government and business initiatives should proceed in a parallel fashion, not waiting for a perfect world.

2. Subregional integration activities such as the Andean Pact, MERCOSUR, and the NAFTA treaty should proceed on an accelerated basis.

3. The timetable to reduce tariffs in general throughout Latin America should be collapsed.

4. Individual country industrial policies, although only partially successful in the past, should be instituted, where necessary, to support and build essential segments of the economy, as well as to develop local technologies.

5. The United States and Canada must encourage and support technology and capital flow to Latin America, which will be further buttressed by the return home of offshore capital.

6. To further encourage investment, intellectual property protection laws must be in place and practiced.

7. The efficiency of both the tax structure and collection practices must be improved to ensure the governments have the necessary funding to support their programs.

8. A major social investment in education and training must take place both to prepare the people and to ensure their support for the major changes ahead.

Longer term (10 to 15 years).

1. The WHFTA should be completed on a fully integrated basis, with tariffs phased out.

2. North, Central, and South America should be totally integrated as potentially the world's most powerful trading bloc.

In closing, the working group showed a surprising solidarity of consensus in favor of moving toward a North, Central, and South American trading union on an accelerated timetable, taking advantage of the positive economic and social climate in place today. A true consensus revolved around inevitable job dislocation, the need for massive investment in education and training, and the necessity for fresh capital and technology inflows. The overall perspective was one of optimism tempered by the practical realization that achievement of this "dream" will take time.

SERVICES AND CAPITAL MARKETS

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Conclusions and Policy Recommendations

1. The group had strong views on the importance of:
   a. macroeconomic stability and in particular price stability
   b. the need to implement bold reforms and make them irreversible
   c. the role of domestic savings
   d. the social aspect of the whole process
2. There was some disagreement about:
   a. the end of the debt crisis (the problem still exists in some countries)
   b. whether or not financial markets are a special case in the liberalization process
3. There was great concern about:
   a. the volatility of the flow of external funds into Latin America
   b. the potential destabilizing effects of domestic retrogression (Venezuela, Peru) or external events (failure of the Uruguay

Round, the financial problems of Japan, a stalemate in the NAFTA agreement)

4. In general, a positive mood prevailed. The new growth stage is of a different nature from past growth; it is led by the private sector, export oriented, and legitimized by democracy.
5. The group's key policy recommendations were as follows:
   a. Urge the United States to stick to its free trade policy with special emphasis on the Mexican and GATT ongoing negotiations.
   b. Give the central banks in the region greater autonomy.
   c. Develop new institutional investors and in particular private pension funds.
   d. Work with realistic exchange rate levels to avoid wild fluctuations.
   e. Adopt economic integration as an anchor for long-run macroeconomic stability.
   f. Standardize financial disclosure requirements and auditing principles of Latin American corporations.
   g. Coordinate the action of the different security exchange commissions in order to curb inside information.
   h. Take into consideration the special nature of financial institutions when proceeding toward liberalization.
   i. Eliminate fiscal restrictions to capital repatriation, and adjust the fiscal legislation of developed countries in order to avoid the neutralization of lower taxation of foreign capital in the developing countries.
   j. Broaden the criteria of selecting private investors in the service sector beyond strict pricing considerations. Deregulation is a precondition for a competitive environment, and it should happen before privatization.

As one might expect, services and the capital market have been affected directly and indirectly by important transformations going on all over Latin America. The trend is toward market economies and political democracies. There are, however, important differences among countries in the depth of the reforms and the stage of implementation. This is not a linear or homogeneous process. Keeping in mind the diversified situation

on a country-by-country basis, we list below some of the main common pending issues as well as their policy implications.

Price Stability

Of all macroeconomic issues, nothing is more important for an efficient capital market than the successful control of inflation. Finally it has been well understood in Latin America that a sustainable growth path is feasible only with price stability. Countries in the region are now at different stages of reaching this basic target. It is crucial to go on with this adjustment process even when it does involve high, although transitory, social and economic costs.

Inflation in the region must converge to levels already achieved by some industrial countries and some newly industrializing countries (NICs) in Asia. This means that even for countries such as Chile and Mexico additional progress is needed. For others, such as Brazil and Peru, there is still a long way to go. Fighting inflation in Latin America requires coherent monetary and fiscal policies. In particular, it means cutting public sector imbalances and reducing the size of the state in the economy. Consequently, it goes beyond conventional "balance the budget" policies and requires structural reforms such as privatization and deregulation.

Despite all the difficulties, the rewards are enormous. Financial and capital markets will quickly anticipate new trends, attracting new funds with longer maturities. Real rates of interest will fall. The crowding out of private savings by the public sector will end. A new breed of voluntary saving channels will develop, creating a sound basis for growth.

It is fundamental to ensure that these reforms are irreversible. The consolidation of the newborn democracies is essential to the formal institutionalization of recent economic restructuring.

Increasing Savings

Capital repatriation. One of the most important sources of savings for Latin America is the return of capital that fled the region because of political

and economic instability. The expectation of greater macroeconomic stability in some countries is already resulting in substantial inflow of these funds. To speed up this process, countries should act to minimize remaining restrictions of a fiscal nature that limit capital repatriation. Greater emphasis should also be given to market instruments, such as positive real rates of interest domestically, the issue of bonds and shares abroad, and debt-equity swaps that can be used to channel these funds voluntarily. Privatization is already becoming an important vehicle for capital repatriation.

Domestic savings. Domestic savings are the most important source of long-term growth. As the Chilean experience has demonstrated, the reform of social security—paving the way for the growth of private pension funds—is one of the key elements for the development of the domestic capital markets in Latin America. These new institutional investors will become an important source of long-term finance and risk capital. They also will help to reduce the volatility of the stock markets. This, by the way, is an interesting example of how economic liberalization may also be geared toward social objectives.

Comprehensive Liberalization

General view. In many countries the process of opening up the economy has not benefited investment and technology as much as it has trade. In some cases the liberalization process is biased toward merchandise trade only. Many restrictions still apply to capital, and especially to technology flows. There is, however, growing evidence that trade, investment, and technology are highly interdependent. Consequently, to maximize benefits, the liberalization process, although gradual in some cases, must be as comprehensive as possible. Furthermore, it is fundamental to establish and announce a clear timetable for the phasing out of remaining restrictions if a gradual approach is chosen. It is also crucial that the United States remain on a course toward freer trade. The Mexican negotiations and the Uruguay Round are keystones to the continuation of trade reforms.

Financial institutions. A delicate issue is to what extent the process of liberalization already going on in other areas should also be applied to the financial markets. In many Latin American countries and in Canada the banking and insurance sectors are still highly protected. Substantial state participation still exists, and there are usually various constraints for foreign ownership. How should the process of financial deregulation proceed? Are bilateral reciprocity schemes an interesting transitory solution? Is the financial sector a special case? Is there any such thing as an "infant banking industry"? Some consider it a special case. There is a need to fine tune the regulatory framework between the United States and Canada and the rest of Latin America.

External Funds

Attracting new foreign capital. As the examples of Mexico and Chile have demonstrated, macroeconomic stability is a precondition for attracting a steady flow of new foreign capital. In some cases, however, the elimination of restrictions (especially in the area of capital remittances) and lower taxation may stimulate investment even before stability is reached. The opening up of the Brazilian stock market to foreign investors is an interesting example. These portfolio investments will have a positive demonstration effect abroad, paving the way for other forms of direct foreign capital. The recent trend toward a voluntary return to the financial markets is also extremely important, confirming that the debt crisis is over. There is, however, great concern about the volatility of the capital flows which are largely of a short-term, speculative nature. Of course, macroeconomic stability must be complemented with other measures that eliminate any type of discrimination against foreign-owned corporations. In some cases, a formal commitment by the government to eliminate price controls or compulsory requirements for the use of domestic components will also be necessary. Broad international agreements offering protection to foreign investment are also a welcome trend in the region. The first steps toward new forms of economic integration will also have a beneficial impact on foreign investment. Beyond the advantages of having access

to larger markets, economic integration usually offers an anchor for macroeconomic stabilization, making economic reforms irreversible.

Tapping funds abroad. Two important new trends support the thesis that the debt crisis is over: (1) the return of many Latin American companies and governments to voluntary borrowing in the international financial markets and (2) the opening up of the capital market of developed countries for Latin American corporations through international public offers (IPOs). The recent trend should be maintained, and access should be made as easy as possible. With respect to debt instruments, the concern is with the present short-term nature of these funds. We should, of course, expect an improvement on terms for maturities as the countries' risks are continuously reviewed. The placement of shares abroad should not be viewed only in terms of the benefits associated with the direct raising of risk capital. We must also take into account the upgrading of the accounting and information procedures of major Latin American corporations to international standards. As a matter of fact, there is a need to standardize financial disclosure requirements and auditing principles in order to facilitate the access of Latin American corporations to highly developed capital markets. Furthermore, it will be necessary to coordinate the actions of the different security exchange commissions in order to protect the rights of minority shareholders and, in particular, to curb inside information. Finally, the present concentration on nonvoting shares should be changed to allow access to a broader resource base. Furthermore, it is essential to integrate the different capital markets of Latin American countries themselves as much as possible to allow a freer flow of capital within the region.

Exchange rate risks. One of the great constraints to foreign investment in developing countries is the risk associated with exchange rate fluctuations. Of course, the stability of the exchange rate is a by-product of overall macroeconomic stability. This may take time, however. In many countries the substantial inflow of short-term capital may lead to a transitory overvaluation of the currency that may have to be reversed in the near future.

It is difficult to rely on market instruments to hedge against these uncertainties. This is one specific area where the contribution of economic integration may be fundamental. As the European experience has

demonstrated, some sort of exchange stability is a precondition for a successful common market. In the meantime it is useful to eliminate any remaining multiple exchange system and avoid any clear misalignment of the currency's real value, moving toward free market rates.

Privatization of services. The privatization process is moving gradually into different utilities, as a consequence of the failure of the state to provide a modern and efficient infrastructure. To succeed in attracting foreign capital in these areas, it is fundamental to set up a realistic tariff policy that will assure competitive real rates of return. More important, it is fundamental to establish a stable and transparent rule over time. Some also consider it essential to have more strict prequalifying procedures, which go beyond pricing of the services but include, among other things, managerial skills and technological know-how. In some cases deregulation with the elimination of monopoly conditions should precede privatization. If these conditions can be met, a substantial amount of private funds will be directed toward areas such as transportation, energy, and telecommunications in Latin America.

SUSTAINABLE DEVELOPMENT

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Our group was designated the Working Group on Sustainable Development to recognize a new concept that for the first time fully integrates economic development objectives with environmental concerns. The World Commission on Environment and Development (the Brundtland Commission) defined sustainable development in its 1987 report *Our Common Future* as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." This definition and concept is gaining broad acceptance around the world. It is reflected in the March 1992 GATT International Trade Report, in the work of the Business Council for Sustainable Development, and in the Business Charter for Sustainable Development of the International Chamber of Commerce. We recommend to the Forum that sustainable

development become a new paradigm for the Americas, an economic model for all future development, and the basis for all future trade and environmental agreements.

Sustainable development is based on several key premises: First, economic growth is fundamental to social development and environmental integrity. Without growth, poverty cannot be alleviated. Only wealthier and more developed societies have stabilized their populations, and such stabilization is essential for future growth of individual welfare. Only countries with growing wealth can afford to protect rather than exploit resources and the environment.

Second, trade is a prerequisite to economic growth. An economic system based on open, competitive markets and fair trade is critical. This implies an international business environment that fosters efficiency in the use of resources through competition and innovation.

Third, integration of commercial and environmental objectives and the internalization of environmental costs and values are parallel requirements. Here we must make it very clear that we are not merely defining a process in which multilateral agreements harmonize environmental standards and practices to their lowest common denominator among countries. Instead, it is absolutely essential that business and industry adopt a new perspective on the use of energy and other resources and do so without the distortion of direct or indirect subsidies.

Fourth, the private sector is expected to play the leadership role in pursuing the model of sustainable development. The rapid shift from protected to open markets in the Americas favors rapid and full economic development and is fully in concert with this fundamental premise of sustained development. Equally important is the privatization of formerly government-directed manufacturing and service industries, which often has the effect of accelerating environmental improvement. Every means should be used to further encourage movement in this direction.

Much of the opportunity and responsibility fall on private industry and commerce. Fortunately, examples are emerging from the actions and policies of individual companies, as well as from the adoption of new environmental and social principles by industrial sectors intended to stimulate competitive progress in these important areas. Companies will find it

necessary to become environmentally sensitive and involved in the total impact of their products from inception to final disposition.

Although consensus was strong in our group on most of these issues, one issue still subject to debate is the proper approach to integrating economic and environmental issues in multilateral trade agreements. The need for such integration is fully accepted in principle as a vision for the future, but there is not yet consensus that trade and environmental agreements should be negotiated simultaneously by the same parties.

Equally impertant is the need to find consensus on issues such as transparency and conditionality of negotiations, evolution of uniform standards of commercial and environmental performance, and the best means of measuring and enforcing compliance. Each of these seeks a break from traditional notions to meet the new expectations of a multinational society.

There is also a compelling need to find funding mechanisms within the framework of such sources as the World Bank, the Global Environment Fund, the countries of the Organization for Economic Cooperation and Development (OECD), and Japanese funds to address some of the more difficult issues in bringing farming, forestry, manufacturing, and urban practices up to this new emerging standard of environmental performance.

Further, it was strongly held that the process for reaching various agreements to resolve such issues must be open, democratic, transparent, and accessible to all stakeholders.

The work of the Brazilian Foundation for Sustainable Development was presented as a pilot project with the suggestion that each country create an equivalent instrument to foster sustainable development with all its implications. This was unanimously endorsed.

The panel also noted the significant opportunity for women to provide greater leadership.

Sustainable development is a powerful new idea. It addresses issues that are fundamental to future economic development in the hemisphere. The working group endorses this vision and recommends its pursuit to the full Forum.

For those who would like to examine the concept of sustainable development more fully, we recommend two books. One is *Changing Course: A Global Business Perspective on Development and the*

Environment. The second is *Leadership for Sustainable Development in Latin America: An Entrepreneurial Vision*. Both can be obtained from the Business Council for Sustainable Development.