

# TRADE IN THE AMERICAS: PROGRESS, CHALLENGES, AND PROSPECTS

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## HEARING BEFORE THE SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE OF THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED SIXTH CONGRESS

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## TRADE IN THE AMERICAS: PROGRESS, CHALLENGES, AND PROSPECTS

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Wednesday, September 22, 1999

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
SUBCOMMITTEE ON INTERNATIONAL  
ECONOMIC POLICY AND TRADE,  
*Washington, D.C.*

The Subcommittee met, pursuant to call, at 11:04 a.m. in room 2200, Rayburn House Office Building, The Honorable Ileana Ros-Lehtinen (Chairman of the Subcommittee) presiding.

Present: Representatives Ros-Lehtinen, Chabot, Brady, Menendez, and Delahunt.

Ms. ROS-LEHTINEN. The Subcommittee will come to order.

Thank you so much for being with us today.

As warfare and political turmoil have become echoes of a grim past, replaced by the sounds of democracy, trade has flourished among the countries in the Western Hemisphere.

The days of mercantilism are over, as most governments in the region realize that economic development, growth, and prosperity are best achieved through free trade and open markets, where the entrepreneurial spirit can blossom.

State-owned and operated enterprises are being privatized and deregulation introduced. Structural reforms in both the public and private sector have begun toward the creation of an environment characterized by transparency, efficiency, and stability.

The 1982 debt crisis in Latin America forced many countries to adopt an agenda which included a further opening of their economies to international trade. Average import tariffs in these countries fell from 45 percent in 1985 to 11 percent in 1997.

These reforms, however, have not been embraced with the same commitment and enthusiasm in all the countries of the region. As a result, trade openness, market access, and competition continue to be pivotal issues in U.S.-Latin America commercial relations.

Some would argue that they provide the impetus for the Free Trade Area of the Americas, but there are other realities driving the negotiations for an FTAA.

As a region, the countries in the Western Hemisphere constitute the fastest-growing market for U.S. exports and the second largest regional market for U.S. foreign direct investment.

In turn, the United States is the fastest-growing market for their products. Yet, U.S. firms are facing the possibility of losing this market to European competitors.

In June of this year, leaders from 48 European, Latin-America, and Caribbean nations signed a declaration to promote and develop a strategic bi-regional partnership.

If the negotiations are successful, the ensuing agreement will create a unified market of about 575 million consumers and would further boost European Union trade in the region.

Within this context, progress and concrete results in negotiations toward an FTAA are a matter of great urgency.

In July of this year, the trade negotiations committee, which has oversight responsibility for the entire FTAA process, agreed to non-Customs-related business facilitation measures to be in place by January. It will also recommend that a deadline be set by the trade ministers at the upcoming November meeting to complete an FTAA draft agreement within the next 18 months.

Nevertheless, by all accounts, the negotiations are proceeding at a snail's pace, only to be delayed further by the upcoming WTO rounds.

In the interim, our U.S. companies are battling to overcome tariff and nontrade barriers, our trade deficit with these countries is ballooning, and violations of intellectual property rights continue. Legal trade is being used for illegal purposes.

Conversely, Central American countries are struggling to recover from the damage caused by Hurricane Mitch.

The countries of the broader Caribbean Basin Initiative are looking for preferential trade status equal to U.S. NAFTA partners, MERCOSUR countries are working to minimize spill-over effects of the Brazilian currency crisis, and these are just focusing on a few of the problems.

How do these realities affect the FTAA process? Is the lack of fast track authority responsible for the delay in the negotiations? Is the creation of a multi-country, multisectoral trade agreement the best course of action?

Can large industrialized economies, emerging markets, and small economies integrate with all parties benefiting equally?

Some would argue that the negative impact of NAFTA and the disparities in the WTO structure regarding the implementation of the rules and requirements are vivid examples of how this approach is doomed to fail. What is the alternative, if any?

These are some of the issues which we will be addressing during the course of today's hearing, and we thank the panelists, as well as the audience, for being with us.

[The prepared statement of the Hon. Ileana Ros-Lehtinen appears in the appendix.]

Ms. ROS-LEHTINEN. I now would like to turn to our Ranking Member, Mr. Bob Menendez of New Jersey.

Mr. MENENDEZ. Thank you, Madam Chairlady.

Let me thank you for having us have this hearing, which I think is incredibly timely, as we have the visits of the president of Colombia here, and at the same time as we are on the verge of having a visit by Central American presidents here, speaking about Caribbean Basin Initiative or enhancement.

In December 1994, when I addressed the Summit of the Americas, the atmosphere was filled with hope as the 34 leaders stretching from throughout the hemisphere, from Canada to Chile, agreed

to pursue a free trade agreement by 2005, a market of 750 million people and \$9 trillion in gross domestic products, and that progress since that time has been slow.

Trade relations within the hemisphere nonetheless have been expanding rapidly. Countries in the region are moving forward with regional trade pacts in advance or perhaps in lieu of the FTAA.

There are now five regional trade pacts, including the MERCOSUR common market, which encompasses South America's economic power house, Argentina, Brazil, as well as Paraguay and Uruguay.

As the progress toward an FTAA has slowed, countries in regional trade pacts are beginning to pursue agreements outside of the hemisphere, particularly with the European Union and countries of Asia, and while American concerns about worker rights and the environment are obviously going to continue to be part, and justifiably so, as part of the debate, unless we take the FTAA process seriously, the United States might very well find itself having ceded what is a natural market to our European and Asian competitors, and I particularly believe, not only because of the long history of the United States within the hemisphere and its geography within the hemisphere, but also because of the incredible natural resources that America has in Americans of Hispanic descent, who create a natural link between the countries of Latin America and the United States, who understand both language and the importance of language, as Chevrolet found out when they tried to sell the Chevy Nova in Latin America.

Nova, for those of you who do not speak Spanish, when pronounced a certain way, means it does not move, it will not go. I do not care what type of marketing program you have, but if it does not move, it is not going to sell.

Language is important, but also business customs, as Americans learned when they dealt in Japan, that you just do not deal—sit down, offer your product and service, negotiate a price, that there are business customs and culture that is involved. That is also true in Latin America.

We have in our people one of the greatest opportunities to develop those natural trade links, and many of them are, notwithstanding the lack of an FTAA.

With those realities in mind, with understanding that trade with Latin America is the fastest growing of all the international regions, understanding the Central American presidents who will be here saying that, for the most part, the greatest opportunity for them not to have had a century eradicated by the virtues of the hurricanes that took place and affected them is to, in fact, have Caribbean Basin Initiative enhancement, and understanding that, when we look at Latin America, in which total merchandise trade between Latin America and the United States for the last 8 years grew by 144 percent compared with 70 for Asia and 61 for Western Europe, and everybody was looking at the Asian tiger prior to its flu, the fact of the matter is we have an incredibly exploding export market for which we are natural allies with and natural opportunities to take place, and because that effort creates jobs here at home.

We have a series of issues that, as we explore this, we need to—and I hope to hear from some of our panelists today as they talk about some of the issues.

Of course, we have worker rights and environmental assurances, but also, what are the potential hazards that might be addressed in a final agreement such as the trans-shipments of goods from nontrade-agreement countries and the trafficking in illicit substances or narcotics which might be facilitated, as some might argue, by a free trade agreement.

We have a number of foreign policy tools we can use to bolster the region socially and economically. We have spent a lot of money in the region, particularly during the 1980's, to promote democracy.

It is amazing to me that, when we have finally, to a large degree, accomplished some of those goals, at least the incipency of democracies, that now we do not seem to be paying the time and attention necessary to cement those democracies, of which trade can be one of the great foundations of that effort.

We want to hear from our witnesses and to learn from them today and also to exchange in a dialogue to see how do we move this process along.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Menendez.

Mr. Delahunt?

Mr. DELAHUNT. I do not have any opening statement. Thank you.

Ms. ROS-LEHTINEN. Thank you very much.

I would like to introduce our first panel.

Our first witness is Mr. Walter Bastian, the Director of the Office of Latin America and the Caribbean for the U.S. Department of Commerce.

He joined that office in 1974, and he is responsible for developing programs, policies, and strategies designed to strengthen the commercial position of the United States in Latin America.

Mr. Bastian also serves as the Acting Director of the Latin America-Caribbean Business Development Center, and before joining the department, he worked in the corporate trust department of a Washington bank and as an intelligence officer in the U.S. Air Force, and we thank him very much for joining us.

He will be followed by Douglas Browning, who is the Assistant Commissioner for the Office of International Affairs, where he is responsible for a staff of nearly 100 in the United States and overseas.

Commissioner Browning has been a U.S. Customs Service Employee for over 21 years, starting in 1977 as a staff attorney in the Office of Regulations, where he has served as an Assistant Regional Counsel in New Orleans and Baltimore and as a Senior Counsel for International Enforcement in the Office of Chief Counsel in Washington and District Director in Baltimore.

Mr. Browning is the recipient of the Presidential Rank Award for 1997 and was a member of the Customs Executive Team, where he earned a Hammer Award from the Vice President under the National Performance Review, and we thank you for being here, and I would like to ask Mr. Brady if he has some opening comments.

Mr. BRADY. No, ma'am.

Ms. ROS-LEHTINEN. Thank you. Thank you, Jody, for your help today.

She is helping us in our Subcommittee on both sides.  
 So, we thank you for that.  
 Thank you, Mr. Menendez, for helping us.  
 Walter, thank you. We would love to hear from you.

**STATEMENT OF MR. WALTER BASTIAN, DIRECTOR, OFFICE OF  
 LATIN AMERICA AND THE CARIBBEAN, INTERNATIONAL  
 TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE**

Mr. BASTIAN. Madam Chair, I am pleased to appear before the Subcommittee today to discuss our commercial relationship with Latin America. In many ways, it is a story of present challenges standing the way of future opportunities.

We are less than 50 days away from the Free Trade Area of the Americas Ministerial, a ministerial which will bring us exactly halfway toward completion of this decade-long undertaking, and it is the proximity to this event that makes this a timely hearing, indeed.

Let me begin by putting the United States, Latin American, and Caribbean—putting that trade into perspective.

Latin America is a major trade and investment partner for the United States, tied closely to us by geography, history, and culture.

Today, Latin America, including Mexico, accounts for one out of every five dollars in U.S. merchandise exports, up dramatically from under 14 percent at the beginning of the decade.

In fact, Latin America has been responsible for almost half of all U.S. export growth since 1995.

Further, excluding Mexico, Latin America is the only region of the world where the United States has consistently run a large and growing trade surplus in the 1990's, reaching a record 13 billion in 1998.

I must note, however, that this trend is in jeopardy this year.

Last year, American firms in 13 U.S. states exported more than \$1 billion each to the Latin American-Caribbean region. Four states, California, Florida, New York, and Texas, each had 1998 exports in excess of \$4 billion to the region.

Unfortunately, even before Brazil's devaluation, the global financial crisis and lower commodity prices were having a dampening effect of economic growth in Latin America and Hurricanes George in the Caribbean and Mitch in Central America had taken a toll.

While Latin America's economies collectively grew almost 5 percent in 1997, last year's growth was less than 2 percent. This region-wide downturn, coupled with significant currency devaluations in several markets, most notably an almost 40-percent devaluation in the Brazilian rival against the U.S. dollar, have both dampened the demand for U.S. exports while at the same time increasing their cost in dollar terms relative to domestically produced goods.

This slowdown is clearly visible in our trade performance. Excluding Mexico, 1998 marked the first time since 1986 that our total trade with Latin America declined, with our exports to the region flat and imports falling.

Our trade balance, although still in surplus at almost \$350 million through July of this year, has decreased dramatically from the same period last year.



Fortunately, recent reports indicate that the Latin American downturn may be short-lived, with growth returning to many of the countries next year. But while growth is expected to return to the region, followed by an expected recovery in U.S. exports, let me note four areas of nagging concern, where recent political and economic developments are continuing to dampen U.S. commercial opportunities.

First, the current period of turmoil in the Andean community bears close watch.

Uncertainty in Venezuela, Colombia, and Ecuador has exacerbated the recent downward trend in U.S. exports to the region, down by almost one-third during the first 6 months of 1999, and caused a major decline in new investments.

Second, the challenge in Central America rests on the successful recovery of the region from last year's devastating hurricane.

The economic impact of Hurricane Mitch on the Central American countries was enormous, placing significant economic, social, and political pressure on the region's governments.

Third, there is a significant increase in competition that U.S. products face within what has heretofore been a traditional U.S. market.

Latin America and Caribbean nations, strongly encouraged by the United States, have moved beyond their traditional closed markets to embrace greater market openness and increased competition.

At last count, more than 30 regional and sub-regional trade arrangements were active within the region without U.S. participation.

Chile, for example, either has or is negotiating agreements with every democratic nation in the Western Hemisphere except the United States.

In addition, the European Union, traditionally our strongest competitor in Latin America and especially in MERCOSUR is refocusing its attention on the region.

Fourth, one of the administration's key commercial issues focuses on the need for most Latin American countries to reform their intellectual property rights legislation and enforcement.

They must do so in accordance with the WTO trade-related aspects of intellectual property rights or TRIPS agreement prior to January 1, 2000. Patent, trademark, trade secret, and copyright enforcement regimes which fail to meet TRIPS standards are areas of concern.

Despite the aforementioned concerns, Latin America remains an area of significant opportunity. Let me briefly touch upon the potential Free Trade Area of the Americas.

Much has changed since the heads of state from the region's 34 democratically elected governments met in Miami in December 1994 to announce agreement toward a Free Trade Area of the Americas by 2005. But much also remains the same, including the impetus behind that hemispheric consensus, that a comprehensive Free Trade Area of the Americas, comprising the world's largest free trade zone, would offer unparalleled opportunity to businesses, farmers, and working families and strengthen the hemispheric move toward open markets under the rule of law.

Today we stand at the halfway point in this effort, and despite the gloomy economic forecast for 1999, we see little evidence that the region is any less committed to completion of the FTAA on schedule, as it was in 1994.

The next FTAA ministerial meeting will take place November 3rd and 4th in Toronto, Canada, and as I'm sure that Mr. Browning is going to cover, given the mandate to achieve concrete progress by the year 2000, vice ministers have agreed to recommend a package of nine customs and transparency business facilitation measures to be implemented by January 1.

The customs measures will result in more efficient customs processing for express shipments, for low-value shipments, and for business-related materials such as promotional materials and equipment.

Ms. ROS-LEHTINEN. If you could start to make your summary.

Mr. BASTIAN. This should provide the needed impetus to the negotiations as we move toward their timely and successful conclusion.

In closing, I want to thank the chair and other Members of the Subcommittee for your appreciation of the critical work that we are doing in the International Trade Administration, and we in ITA are working together as a unit to ensure full access to foreign markets for goods produced by American firms and workers and to achieve full compliance by trading partners with the trade agreements they have signed.

Thank you, Madam Chair.

[The prepared statement of Mr. Bastian appears in the appendix.]

Ms. ROS-LEHTINEN. Thank you so much.

Mr. Browning?

**STATEMENT OF MR. DOUGLAS BROWNING, ASSISTANT COMMISSIONER, INTERNATIONAL AFFAIRS, U.S. CUSTOMS SERVICE**

Mr. BROWNING. Thank you, Madam Chairman.

Madam Chairman and Members of the Subcommittee, I am pleased to appear today to address the subcommittee on the U.S. Customs Service's involvement in the trade programs in the Western hemisphere, particularly the Free Trade Area of the Americas initiative.

This initiative calls for the creation of a preferential trade arrangement encompassing the 34 democracies of the hemisphere, with negotiations scheduled to conclude by 2005.

The FTAA process promises to have a profound impact on customs procedures in the region, since the efficient processing of merchandise at ports of entry will be fundamental to the agreement's success.

While much of the work in crafting a preferential trade agreement consists of the political dynamic of exchanging country positions, there is a technical and, indeed, operational element that must be considered to ensure that the trading community receives the full benefit of the preferential regime.

At the same time, governments involved in the FTAA will have to address how to ensure that administration of the trade agreement does not adversely affect enforcement activities.

The key variable in these calculations is customs procedures and a recognition that efficient and effective customs practices are the principle mechanism for ensuring that these goals are accomplished.

Based on this understanding, the United States Customs Service has been involved in the FTAA process since its initial stages, contributing to the efforts by the Office of the U.S. Trade Representative to first explain the existing customs practices and to assist them in the development of government positions in the customs arena.

U.S. customs involvement in the FTAA can be traced to the preparatory stage following the 1994 Summit of the Americas.

Formal negotiations of the FTAA were launched at the second Summit of the Americas in 1988, and with this meeting came a negotiating structure consisting of a number of negotiating groups led by a trade negotiating committee.

Within the negotiating group of market access, customs discussions have turned to the issue of what procedures may potentially be incorporated into the FTAA chapter on customs.

Although no conclusions have been reached at this time and substantive proposals will come in later stages of the process, I can indicate to you that the U.S. Customs Service has been very clear in its recognition of enforcement as an important element for consideration in this process.

In the customs area, the Trade Negotiation Committee of the FTAA has secured consensus as noted on nine customs-related deliverables. Each of these is intended to ease the movement of legitimate trade.

As is the case with other international initiatives in which we are involved, our work within the FTAA has been designed to balance the objective of facilitating legitimate commerce with effective enforcement.

We at the U.S. Customs Service are acutely aware of the potential challenges that can evolve in the implementation of any free trade agreement.

Indeed, our experience with the North American Free Trade Agreement, which overnight created a market of 360 million consumers, has been instructive in this regard.

Clearly, free trade agreements between the United States and other countries have the potential to provide positive benefits to each country that is a party to that agreement.

Unfortunately, the potential also exists for importers to unlawfully claim preferential treatment under a trade agreement in order to avoid duty, quota, or other import restraints.

For instance, a trade agreement might allow goods imported into the United States from a certain country to receive lower duty rates. The importation or trans-shipment of products from a country which is not party to that agreement through a country which is a party to that agreement can result in goods gaining unlawful access to the United States, as well as nonpayment of lawful duties or evasion of quota restriction.

Trade agreements, while advantageous in promoting international trade and investment, do provide opportunities for unscrupulous importers to gain unfair business advantage.

While there is scant evidence to establish a direct link between free trade agreements and increased trans-national crime, this does not diminish the threat from international criminal cartels.

We recognize that an increase in the volume of trade provides additional opportunities for these criminal cartels to secret their cargo in and among legitimate cargo.

At the U.S. Customs Service, we know the threat is real, and it is not only growing in magnitude, it is also growing more complex and more sophisticated every day.

Accompanying these general challenges are issues specific to the region, particularly as they relate to the illicit trafficking of narcotics and the laundering of proceeds from trans-national crimes.

There are innumerable methods used by drug barons to launder the proceeds of narcotics trafficking. One of the most complex, far-reaching, and insidious is through the use of legitimate international trade.

The black market peso exchange is an example of how trade is used to launder drug money, and if I might, I would like to give you just a brief illustration of how this process works.

We will use Colombia as our example.

In Colombia, a narcotics trafficker produces and ships illicit drugs to the United States. The narcotic trafficker uses the Colombia pesos to pay for these operations in Colombia.

Upon selling the drugs in the United States, the narcotics trafficker receives large amounts of U.S. currency, which the narcotics trafficker then sells in bulk amounts to a specialist in handling narcotics proceeds.

The specialist, often called a peso broker, undertakes to transfer the proceeds back to Colombia to pay for the narcotics trafficker for the money received in the United States minus the broker's fee. Currently, this fee is approximately somewhere between 25 percent. Once that is done, the transaction starts again.

International trade is the Customs Service's core business, and we are uniquely suited to address the issue. We are now educating those businesses which are involved in international trade and which are at risk of being victimized by drug money launderers.

In the last 8 years, our undercover money laundering operations targeting the peso brokering system have resulted in the seizure of over \$800 million in cash and monetary instruments.

Ms. ROS-LEHTINEN. Please summarize your statement now, Mr. Browning.

Mr. BROWNING. As a final point, Madam Chairman, trade relations with the Americas are an area in which the U.S. Customs has focused a great deal of attention.

We are now engaged in supporting the free trade of the Americas and are drawing upon our NAFTA experience and what we know to be the challenges posed by trade in the Americas to support the goals of trade liberalization and effective enforcement.

Each year at our land, air, and sea borders, Customs processes over 15 million containers, approximately 460 million passengers, and a 125 million conveyances at our 301 ports of entry.

Since the passage of NAFTA, we have seen trade with Canada and Mexico increase substantially.

The FTAA, which will be comprised of the 31 remaining countries in the hemisphere, promises to increase trade even more dramatically.

Efficiency in customs procedures, defined in terms of facilitation—facilitating the movement of legitimate commerce and preserving effective enforcement, will be a key consideration in the context of this anticipated growth.

Thank you, Madam Chairman.

[The prepared statement of Mr. Browning appears in the appendix.]

Ms. ROS-LEHTINEN. Thank you so much, Mr. Browning.

Mr. Bastian, as we know, many—some have said that the FTAA, along with other trade agreements, have the potential of lowering the standard of living for U.S. workers, encouraging U.S. businesses to relocate to take advantage of the lower wages which are being offered in other countries, also the environmental laws would not be enforced enough, the same arguments that we had heard in NAFTA.

Do you hear that related to the FTAA, and what arguments can you make to those who fear that this new trade agreement would go in that direction, similar to NAFTA?

Mr. BASTIAN. Madam Chair, obviously we are familiar and cognizant of the concerns, particularly as they were expressed in the NAFTA debate. I think the situation changes a little bit in the Free Trade Area of the Americas.

The concerns remain very real, but I think, if you are focusing part of the answer to this on, let us say, the assembly section, I think the further south you go, that becomes less and less of an issue, because the business itself becomes less and less viable.

I do think that the argument, also, that we have made in the FTAA debate is that our interest in all of this and I am sure that the interest of the foreign governments is in raising those lower standards of living.

Their intent in market reform, market liberalization in the trade agreements that they are signing is to raise their standards, is to raise the wage scale, improve the whole social situation for citizens of the hemisphere.

I think that is a driving force, in part, behind this, that they realize that they cannot afford, as governments, to continue to maintain the status quo with respect to social and environmental programs that they have in place. The FAA is viewed as an avenue to begin to address some of those issues.

Ms. ROS-LEHTINEN. Thank you.

Mr. Browning, in your testimony, you talked about the potential threats that I think are very real to us about money laundering, counterfeit merchandise, black market trade.

How successful do you think that we will be in working with our trading partners, our allies in making sure that we would stop this traffic of contraband, and what about the fears that folks have that we will be lowering our inspections and our standards because of the FTAA?

Mr. BROWNING. Madam Chairman, as you are aware, we have a relatively small work force of 20,000 very dedicated officers, but one of the things that has been most helpful to us is we have been developing strategies that we think will, first of all, enhance our ability to do our job better, better targeting mechanisms.

Congress has been extremely good to us in the area of providing us with nonintrusive technology, x-ray facilities that we can use to rapidly examine cargo coming into the United States, and at the same time continue to move—facilitate the movement.

We have also recognized that we cannot do this alone. We have developed a number of industry partnership initiatives, our Business Anti-Smuggling Coalition, our Carrier Initiatives Program, our ACSI, America's Counter-Smuggling Initiative, all of which are designed to elicit the assistance of people who know that business best, and that is industry, and helping us to identify areas of potential vulnerabilities.

On the international side, we have had great success in developing lines of communication and information exchange with our counterparts.

Indeed, we have in existence about 44 customs mutual assistance agreements, and I would have said yesterday, 6 of which are with countries in the Western Hemisphere, but as of yesterday, we have now added Colombia to that battery of agreements, and the Commissioner signed that agreement, with his counterpart, in Miami yesterday.

A good bit of the groundwork—and I think a lot of that is to be attributed to the very open approach that we have received from the Pastrana Government and other governments in that hemisphere, and if this is indicative of what we are able to do, I think we will have some success in getting our partners on the industry side and our partners in the other government agencies working with us to try to address this issue.

Ms. ROS-LEHTINEN. Thank you so much.

Mr. Menendez?

Mr. MENENDEZ. Thank you both for your testimony.

Let me ask you, what—Mr. Bastian, what are the situations in Venezuela? President Chavez will be here tomorrow. President Pastrana is here today. Those situations that you reference to in your speech—how do they affect this whole process?

You talked about the current reality of its reduction with some of those countries. How do they affect—have we noticed any appreciable differences in the role that the ministers have taken from those countries in terms of promoting the FTAA, and how do they affect the process as we go through the second half of the 5 years that is left?

Mr. BASTIAN. I think the short answer is—have we seen a retrenchment or a withdrawal of the visibility of the ministers from these countries in the FTAA process?—and the answer is no. But I think the concern—looking at it from the perspective of the Department of Commerce and the U.S. business community, I think there we begin to see that there are some very real concerns.

There is a concern with the direction that the Chavez government is going, so much so, I think, that it in part dictates the reason that he is up here, this week along with his ministers meeting

with government and private sector officials. He has also representatives from his constitutional assembly, the legislature, up here for the same purpose, to clam investors nerves because the U.S. business community, in Venezuela is wondering what direction this new constitution is going to go and what it is going to mean particularly for U.S. investment.

I think there is concern also—and this what really may affect the FTAA process, as to what is happening in Colombia. This is especially true with respect to its political problems, which really are more the purview of the State Department or the National Security Council than ours, but we look at it, again, from a business perspective.

What has happened to U.S. investment down there? It is slowing down. Trade is also dropping.

How do you keep people engaged? You have U.S. companies there and also in Ecuador. What does this do for less investment on the part of U.S. companies, less job creation.

The long-term spill-over effect, I think, from those situations poses a hazard to what we are trying to accomplish in the hemisphere through the FTAA.

Mr. MENENDEZ. It has not lessened the zeal of the private sector still to seek an FTAA.

Mr. BASTIAN. It has not, but I think you began to see — in this country, we believe very strongly in the public-private sector partnership, and I know, in our department and in others, we have all sorts of committees and councils, and we get together with the private sector to hear what their concerns are and help us develop our negotiating strategies.

That is an idea whose time has not quite come in Latin America, and I think as the situations deteriorate in the Andean region, I think what you get is less receptivity on the parts of some of the governments to listen to their private sectors, to get private sector input on the way negotiations should go, and that concerns us equally.

Mr. MENENDEZ. One other question. What is the effectiveness of the South American sub-regional trade pacts on the FTAA and the upcoming WTO new round of possible negotiations?

Are the Latin Americans saying, well, this is taking too long and we have the Europeans out there pursuing us, we have WTO maybe pursuing us, we have all of our own regional trade pacts, maybe we really do not need this at the end of the day?

Mr. BASTIAN. I think there are probably a couple of points in response to your question.

I think, first and foremost, that the United States is still the market everybody wants to be able to deal with. We have the largest market in the world, and the trade figures yesterday, I guess, reflect that. I mean we are the market everybody wants to sell into.

I also think maybe from the Latin American perspective — and trying to read this from Washington could be difficult.

Mr. MENENDEZ. A lot of us would like to marry Jennifer Lopez, but we may never think it is possible. Not me, but the question is do they believe that this whole process is ultimately going to achieve that?

Mr. BASTIAN. I think that is the second part of the point I am trying to get to. I think they do.

I think, in retrospect, the easy part of this whole process, this whole Latin American reform process, was making the decision to go forward with it. The difficult part comes in implementing it, and it is not one of these things that is implemented overnight, and we are beginning to see some of the fallout from that.

That is natural.

I mean any academic exercise along these lines would show it to you, that in reform processes, you cut down on bloated bureaucracies and cut the Federal spending and so forth, you are going to have unemployment and a number of issues that they have to work through, and I think that possibly the timing here, going from 1994 to 2005, to a degree, gives them a chance to make some adjustments, also gets them a chance to engage further in market expansion.

Maybe it is not possible to sell all of their product into the United States, because—for a variety of reasons, we do not want it, it is not competitive, whatever, developing alternative markets is important to them, and I think MERCOSUR goes a long way to—in that regard, and I would think also there is the fact, particularly if you are Brazil, that you might think that the MERCOSUR—strengthening MERCOSUR and developing more trade agreements with other Latin American countries outside of MERCOSUR, as they have done with the Andean community, strengthens their hand as we get closer to 2005.

Mr. MENENDEZ. One last question, Mr. Browning.

What does the Customs department view as or envision in terms of placing safeguards on the questions of trans-shipments? Is that part of the negotiations that are taking place? Can you give us any preview as to how you are going to safeguard in terms of trans-shipments?

Mr. BROWNING. Clearly, Congressman, one of the issues that would arise would be the question of origin of goods under any preferential arrangement, and there is within the nine items that have been identified a clear regime of discussions to address the question of origin.

As is the case with NAFTA where we have a very rigid origin certification process, I would anticipate that would be the same process involved in the FTAA. No doubt, with the number of questions involved, it will be more complex for us to enforce that, but there is a residual impact on countries that allow themselves to be used for trans-shipment purposes, and that is that legitimate merchandise manufactured in that country will not receive the benefits of the particular preference, and that impacts more directly the goods and services and economy of that country.

I think that there will be both an incentive to try to enforce this, as well a precedent and a mechanism for ensuring that we can enforce the question on rules of origin and origin of goods that are subject to preferential treatment.

Mr. MENENDEZ. Thank you, Madam Chairman.

Ms. ROS-LEHTINEN. Thank you so much.

Mr. Brady?

Mr. BRADY. Thank you, Madam Chairman.



Thank you both for testifying today.

I had a very good question prepared but got distracted when Jennifer Lopez got introduced into the discussion. Other than my wife, I cannot think of anyone more distracting than her.

A question, Mr. Bastian. Your remarks reflect a frustration that many of us have, which is short-term, year-to-year events affect our long-term view on trade, slow down our negotiating, and really put off what we know is the right thing to do long-term, which is negotiate this free trade agreement.

My question is, in the end, do you have any idea in what form the Free Trade Agreement for the America might take? Would it follow a NAFTA-type format, a MERCOSUR-type concept, a European Common Market approach? Just guessing, as you watch things unfold, which direction is it headed, if any?

Mr. BASTIAN. I hope it is headed in a direction.

I think I would see this going more closely along the lines of a NAFTA, as comprehensive as possible agreement with significant safeguards for our industries, but without sacrificing—as with NAFTA, without sacrificing the protections and the mechanisms that are available for U.S. companies, but I see it probably as broad and expansive as possible, which, frankly, is complicated.

I mean the more countries you have, that makes it a more difficult process.

Mr. BRADY. What is the most important thing Congress can do to keep these negotiations moving forward?

Mr. BASTIAN. I think, to send the message, would be fast-track authority, no doubt about that. We have done a very good job in the last 4 years of convincing—of convincing Latin Americans that fast-track was absolutely key to the negotiating process and we really needed fast-track, and they bought it.

We know that we can obviously continue to negotiate without it, but I think, as a signal sent, I think that passing fast track would be an extremely strong one.

Mr. BRADY. Thank you very much. I agree, for whatever it is worth.

Mr. Browning, some opponents of free trade, in effect, say free trade means—increased trade means increased crime, increased drugs, increased chaos, so therefore the answer is do not increase trade or go the opposite way.

Isn't your approach much more common-sense, which is, because increased trade, like any other changes in the world, increases the opportunities, give us the resources and let us continue to work smarter and better to address the new changes, new approach.

Mr. BROWNING. Congressman Brady, I agree 100 percent with you.

As I noted earlier in my comments, one of the things for us as an organization that has been most encouraging has been the support we have received from Congress in the nonintrusive technology area.

We have a deployment plan over the next 5 years that will, in fact, deploy \$54 million worth of nonintrusive technology along the southern tier, and I think we recognize that that is a clear area of vulnerability.

With those tools, with additional targeting mechanisms, with better educating our people on what we need to look at, I think we should be able to continue to safeguard the borders of this nation.

Mr. BRADY. From your standpoint, obviously, trying to stop 31 smaller leaks at their source is more productive than trying to stem a flood when it gets to our borders.

What kind of enforcement mechanism would be strong enough in this agreement to provide the incentives to tackle this issue, these issues at their origin, at the source? What kind of enforcement mechanism really works?

Mr. BROWNING. Actually, I think one of the things—and some of this we are pursuing already. I am not sure if you can build into an international trade—free trade agreement a mechanism that will necessarily achieve the result that you are talking about, Congressman Brady, but I think, in getting the various customs administrations and law enforcement agencies talking together about the issue and about the potential impact in providing technical assistance and training, and a very good example of this is what is happening in the context of Colombia.

Through both our treasury department, through our justice department, through the utilization of fees, assets, a substantial commitment is being made in training and the infrastructure area to assist the Colombian government in better policing and better addressing some of the concerns that potentially impact us as a nation.

Your logic is flawless. We have, in the area, for example, of weapons of mass destruction, made a substantial commitment in western Europe—sorry—Eastern Europe, to trying to stem at the source the movement of these kinds of commodities and are starting to see some results.

I think that the issue here is to assist these nations in understanding the potential impact, to provide them with infrastructure, and to create cooperative bridges for training and technical assistance and the resources to support that can be made available to them.

Mr. BRADY. Thank you very much.

Ms. ROS-LEHTINEN. Thank you, Mr. Brady.

Mr. Delahunt?

Mr. DELAHUNT. Yes. Thank you.

This testimony is very informative, and I want to thank you.

I think it was Mr. Bastian who talked about living standards.

I am a member with has a concern about workers' rights. I translate the concept of worker's rights into living standards, and I see a relationship between living standards and the uncertainty and turmoil we see in some Latin American nations; You indicated that living standards have improved.

I think it is very, very important to provide Members of Congress with that information in very clear and simple terms so that at least I can understand it. Earlier, you referenced Venezuela.

I recently returned from Venezuela and had an opportunity to meet with President Chavez, who is going to be meeting with Members of this Committee tomorrow, and the business community expressed concerns, because it is uncertain as to what is occurring.

There is a new constitution that is being formulated.

I think some of their concerns will be assuaged and will disappear. But I think it is important to understand that, for many of us, the prosperity that is brought about by free trade be shared equally among all members, all citizens of these various societies.

In the past 20 years in Venezuela, under dark democratic government—I guess there are degrees of democratic governments, but we now have a situation in Venezuela where you have 80 percent of the population below the poverty line, and I dare say much of the turmoil that exists in Colombia can be accounted for because of disparity of income and wealth among citizens.

The reality is, in Latin America, for years, we have had economies where there are those few who have and those that do not have, in large numbers.

I guess that is more of a statement than a question, but I have got to run, because I am meeting with President Pastrana at 12 o'clock.

Mr. BASTIAN. If I could just leave with one number—or a couple of numbers, that distribution that you are talking about concerns us greatly, and I think one thing that struck me even more than the one I think you mentioned is a figure I saw last year talking about Brazil. I think the figure was 70 million people living on a dollar a day or less, and that cannot be sustained.

Mr. DELAHUNT. My concern, Mr. Bastian, is that until that issue is addressed, we are going to have nominal democracies.

We can have all kinds of elections, but we are not going to have democratic societies where all citizens have the ability to participate in the prosperity that is hopefully generated through a market economy.

Mr. BASTIAN. I think we agree absolutely with that.

Mr. DELAHUNT. Thank you, Madam Chair.

Ms. ROS-LEHTINEN. Thank you so much.

Thank you, both of you, for being here with us, and we appreciate it. We will continue our dialogue as the FTAA gets further going. Thank you so much.

Mr. BASTIAN. Thank you, Madam Chairman.

Mr. BROWNING. Thank you, Madam Chairman.

Ms. ROS-LEHTINEN. I would like to introduce our second panel.

Our first witness will be Dr. Jerry Haar, the Senior Research Associate and Director of the Inter-American Business and Labor Program at the Dante Fascell North-South Center at the University of Miami, as well as a research affiliate at Harvard University's David Rockefeller Center for Latin America Studies.

He is a former Director of Washington Programs for the Council of the Americas, and he has held several senior staff positions in policy and management with the Federal Government and has served as an adviser to numerous corporations.

Dr. Haar has written extensively on economic and political issues pertaining to the Americas, but more important, he is a constituent of my legislative district. Thank you.

Then we will also hear from Stephen Lande, who is the President and founder of Manchester Trade. Currently, he is advising several Latin American and Caribbean governments on their participation in a Free Trade Area of the Americas.

Before entering the private sector, Mr. Lande served as the First Assistant U.S. Trade Representative. He established a trade consultation group and worked on the U.S. implementation of the general systems of preferences.

In addition to his consulting work for foreign and domestic clients, Mr. Lande has authored two books and has written numerous articles about these issues.

We will also hear from Louis Marrero, President of the Spectra Colors Corporation, and because he is a constituent of our distinguished Ranking Member, Mr. Bob Menendez, I would like to have Mr. Menendez introduce Mr. Marrero to us.

Thank you.

Mr. MENENDEZ. Thank you, Madam Chairlady.

We appreciate Mr. Marrero coming from New Jersey on relatively short notice, because we had a previous witness, but when the hurricane knocked us out last week, Mr. Marrero was very good to come, and I think that he has—I mentioned earlier that, in trade with Latin America, we have some natural links in terms of that trade, and I think he, in his testimony as it relates to his company, is going to be someone who, in fact, is going to be able to be part of the living testimony to that reality and why, in fact, the FTAA is a very good proposition.

We look forward to listening to him and thank him.

I am going to very briefly, Madam—because I have President Pastrana with the democratic leadership, but I will be right back. I want to pay my respects to him while he is here. I do not want him to think I have slighted him as the only Hispanic member of the leadership. It would be somewhat offensive, I think. I will be right back.

Ms. ROS-LEHTINEN. We are proud of you for your work in that leadership post, Mr. Menendez, and he will be meeting with the other side of the aisle following that, so I am going to try to speed this along if we can in order to accommodate the president.

We thank all of you for being here. We will enter your full statements into the record, and I would ask you to please summarize your statements, and I will be watching that clock.

Thank you, Dr. Haar.

**STATEMENT OF DR. JERRY HAAR, DIRECTOR, INTER-AMERICAN BUSINESS AND LABOR PROGRAM, DANTE B. FASCELL NORTH-SOUTH CENTER, UNIVERSITY OF MIAMI**

Dr. HAAR. Thank you, Madam Chair—I am delighted to be a constituent, by the way—and Members of the Subcommittee.

I appreciate the opportunity to testify on the Free Trade Area of the Americas.

As a leading policy research institution on U.S. Western Hemisphere relations, the North-South Center has focused on the FTA since plans for hemisphere free trade were discussed nearly 5 years ago at the first Summit of the Americas in Miami.

I have been asked to address the progress to date briefly on the FTAA and outlook for the year 2000 and slightly beyond that.

Essentially, the progress to date on the FTAA can be classified somewhere between unremarkable and disappointing.

The commonly held belief hemisphere-wide is that negotiations have accomplished only the bare minimum and that the FTAA is languishing, having lost any momentum it may have had and that the negotiators are light-years away from meeting the 2005 completion date, nevertheless there have been concrete achievements, too, in spite of the lackluster performance.

One major achievement has to do with process, and the other is one that deals with substance.

In the first instance, dealing with process, the FTAA, remarkably, has brought together 34 countries toward a common cause of trade liberalization.

Plans and agendas were formalized, working groups were formed, a negotiations committee was established, and the actual negotiation process was begun.

A second accomplishment, the real substantive one, was achieved just 6 weeks ago in Bolivia, where an agreement was reached to implement by 2000 nearly 20 business facilitation measures, including nine customs measures aimed at improving and facilitating customs clearance and transparency.

Hopefully, these measures will make trade transparent, efficient, and really focus on the small exporter and importer, who, more than anything else (despite the trade rhetoric that has been hair-splitting by numerous attorneys and trade bureaucrats) wants to see goods getting in, getting paid, and getting the product out.

That commendable aspect of the FTAA is one that we need to focus on and one that should be commended in spite of the slow progress.

The outlook for the year 2000 with regard to the FTAA and even beyond that, I would say, in spite of the lackluster performance to date, is one of guarded optimism. Why? As I have just mentioned, the implementation of business facilitation measures.

This will create the tangible results that the business community has been waiting for, and by business community, all business communities, not just in the United States.

Second, there is the impact of the launch of the World Trade Organization negotiations. It has set a conclusion date for 2002 rather than 2004.

While my colleague and one of Washington's top trade experts, Mr. Lande, sitting to my right, feels that the WTO will, in fact, dissuade a lot of the negotiators in the FTAA from making concessions early on, waiting to see how the WTO does develop, I would argue that, because the WTO is going to finish earlier, it could, within 18 months, push ahead and accelerate the FTAA negotiations.

Another factor where I have guarded optimism is the U.S. presidential elections. After November 2000, the President-Elect will have the opportunity to craft a leadership role in achieving an FTAA, making it an administration priority in United States-Latin American relations.

Another factor, as has been mentioned earlier this morning, is the growing European presence in the region. Corporate giants such as Ericson, Banco Santander, Airbus Industries, SmithKline Beecham, and Volkswagen are competing head-on with U.S. firms.

Also mentioned this morning, 2½ months ago, the EU and MERCOSUR agreed to begin discussions on a trade agreement. Europe has got an aging population. It is a slow market in terms of expansion. Therefore targets will be set on the Western Hemisphere.

May I also add there will be a recovery in Asia. Whatever goes down must come back up, and Asians will be focusing their attention, as they have already in Mexico, of moving in, jumping behind the MERCOSUR tariff, and other arrangements to get at growing markets for consumer and industrial goods.

Another factor not mentioned this morning is unilateral trade liberalization. Led by Chile, a number of other countries want to compete within the region against other less-developed countries for access to investment dollars, financing, and markets.

One example is the beer industry, which I know all too well. The Bahamas recently enacted an excise tax on locally brewed beer and reduced the tariffs on imports. This was done to make local producers more efficient and competitive.

Unilaterally, the Bahamas has decided to move ahead in the area of trade liberalization, and similar developments are brewing throughout the region.

It has already been mentioned that the Latin American region is a very attractive place, the best for U.S. trade in terms of its level of growth. Suffice to say our exports to Latin America are expected to surpass Europe by 2000 and exceed those to Europe and Japan combined by 2010.

In my testimony, I have provided examples not from the Fortune 100 companies but from dynamic medium-sized firms like Lexmark International in Kentucky, Timken Corporation in Canton, Ohio, and Tech Data of Clearwater, Florida, taking advantage of trade opportunities.

In conclusion, I would say that it seems highly unlikely that the 2005 deadline will be met for achievement of an FTAA. Most likely we will witness at the beginning of 2004 what I consider a cramming for finals approach in order to come close to meeting that 2005 deadline.

Be that as it may, I submit that it is in the national interest of the United States to exert a leadership role in FTAA. With average Latin American and Caribbean tariffs four times higher than the average U.S. tariff, the FTAA can further open markets, benefiting U.S. businesses and workers.

Thank you.

[The prepared statement of Mr. Haar appears in the appendix.]

Ms. ROS-LEHTINEN. Thank you so much, Dr. Haar.

Mr. Lande?

**STATEMENT MR. PHILIP STEPHEN LANDE, PRESIDENT,  
MANCHESTER TRADE**

Mr. LANDE. I appreciate the opportunity to appear before the Subcommittee to give my views on progress and prospects for trade in the Americas.

I would like to thank the amazing cooperation of the committee staff, both sides of the aisle, for allowing this hearing to take place despite hurricanes, Jewish holidays, Presidential visits, etcetera.

Being from New York and when you are subject to a 4-minute-and-45-second limitation, you desire to speak very fast, but no one understands you.

Instead, I will try to highlight a few of the points that I have made in this testimony, that I have made in my written statement, and I hope the rest can be made part of the record.

The current figures which shows the United States playing a leading role in Latin America mask some very significant weaknesses in the position and also does not explain some of the threats we face.

While it is true that we do dominate trade in the northern part of the hemisphere, having 74 percent of the Mexican market, 48 percent of the Central American market, and 40 percent of the Caribbean market, Caricom market, the figure declines to 35 percent of the market of the Andean communities and only 21 percent of the MERCOSUR market. In fact, in many years, Japan and European Union exports to this region exceed those from the United States.

The second is the threat, and as Walter Bastian pointed out, there are 31 free trade agreements in the hemisphere today, agreements where it is much better to be inside, meaning that your exporters are able to ship paying lower duties, than to be on the outside.

We are on the outside of 30 of these agreements. We are only on the inside of one, certainly the most important one, NAFTA, but the other 30, and the real threat is that Brazil, who views itself and in many ways is the premier country of South America and a competitor of the United States, is expanding its agreement.

It has gone beyond MERCOSUR, where its agreements now cover all—with all principle countries in South America, and the new threat is the European Union, and next month, the European Union will sit down with MERCOSUR and could begin negotiating a free trade agreement, which will have a negative effect on the United States.

The three points I would like to make here—or the three points—the thing I should like to address is first the question of fast-track, and as pointed out in response to Congressman Brady's question, this is a very serious problem, the absence of fast-track.

Second, despite Mr. Haar's characterization of my position, I would like to explain my position on the FTAA and the relationship to the Uruguay Round, and third, I would like to emphasize the importance of preferential programs, particularly the expansion of the Caribbean Basin Initiative and, starting next year, the importance of addressing—starting in the next Congress—the importance of expanding the Andean Pact Preferences Act, and so on.

There are significant differences on fast-track, and we are not going to solve them through debate. Republicans strongly believe—I will not characterize Republicans.

I will simply say that one view views the issue of the linkage between trade and labor and environment in one way — i.e., that trade perhaps is the best way to have economic growth and through economic growth you perhaps solve some of these problems, and the other side believes that there is a linkage where you really have to have economic sanctions and use trade as your major

instrument as a way to convince countries to have acceptable labor rights and environmental rights.

As so often happens in a democracy, when you have such strong positions, you have to develop a compromise, and I just would like to put one idea on the table for the consideration of the committee for a compromise in the labor area.

One development over the last 2 years has been the increase in the prestige and the effectiveness of the International Labor Organization, particularly its ability to carry out investigations and make decisions as to whether countries' labor rights are consistent or not consistent, labor practices are consistent or not consistent with the requirements of labor conventions.

Let this group be the investigating body. Let this group make the decision. Take the United States out of the role of being the unilateral decisionmaker. We are not God. We are a significant country, but it is better to have these decisions made in a equitable and a generally recognized version.

If, however, there is a violation found, then it is important that the United States does take a step. Violations of labor rights are very similar to violations of human rights. I am not sure that trade sanctions are the most effective, because they really harm the very workers you are trying to help, because you create unemployment. They do not have economic opportunities.

There are a whole group of other sanctions which have been applied effectively in the past and which should be considered perhaps to be used in this area.

Travel restrictions on country leaders allow—clearly send a message. For example, the inability to travel to Florida, which is particularly important to Latin American leaders, not only deprives them of access to one of the leading shopping meccas of the world but perhaps more significantly prevents them from obtaining first class medical care and limits access to a very efficient financial center.

In addition, sanctions can be applied through limitations on military cooperation, limitations on cultural and sports exchange, etcetera.

The idea, of course, if you can come up with some way to deal with fast-track with this question of linkage, then you have a chance to pass fast-track.

A second challenge is how do we keep the FTAA moving while the World Trade Organization is taking place? The danger is that, if the WTO lasts for 3 years—and looking at the Uruguay Round, which was supposed to end at the end four but went on for eight, I am not sure the WTO is going to make that deadline for the multi-lateral negotiations—what can you do in the FTAA agreement?

Being a professor of trade, it would take me many minutes to describe how you do this. What I really would suggest, look at the testimony I have presented, but just remember that you can form agreements within the FTAA which not only will move that process forward, but by not allowing the participation of other countries, meaning the participants in the Uruguay Round or nonhemispheric countries, you kind of say, hey, I do not want to be left out.



If you make an agreement on government procurement that allows countries to participate in the U.S. market for government goods, the Koreans and the Chaebols and the Keretsus are going to want to participate. They are going to say, hey, we better do the same thing here.

You can make a very tough agreement on agricultural subsidies, where you basically outlaw them in the hemisphere.

You cannot enforce that agreement until you get the European Union in place, but if you do that agreement, it gets the interest of all agricultural exporters into moving the WTO.

There are areas the WTO is not covering. Investment—there is no international agreement. We have a short deadline.

What I would simply say is—and this could be a role for Congress, as well—is to continue the pressure on the administration to use the FTAA, not to let it wilt on the vine, but to use it during the multi-lateral trade negotiations and to make progress within that particular area.

My last comments concern the significant improvement of enacting the CBI and the Andean Pact Preference programs.

Perhaps nothing shows how important it is than the fact that you point out that you are going to meet the presidents of Central America, I believe, tomorrow or the next day and you are meeting the president of Colombia today.

One of the presidents of Central America, I understand, will not be able to make it because of the continuation of the natural calamities.

The best way to deal with natural calamities is by dealing with the apparel and textile industry which is the one industry that is still able to thrive in Central America.

What should be remembered is that a program like the Caribbean Basin Initiative, particularly its extension to textiles and apparel, benefits U.S. workers and U.S. producers more than they benefit Central American and Caribbean workers, because it is only through Co-production where you are able to take advantage of U.S. competitive advantages in a number of areas that you are able to then produce.

Nothing is more important than the next Congress address the question of the Andean Pact Preferences, particularly with Colombia. This is a program that has worked. We are all able to get flowers all throughout the whole year. Miami's port has a record employment because of this flower exportation. I hope very much you address those issues, as well.

Thank you very much.

[The prepared statement of Mr. Lande appears in the appendix.]

Ms. ROS-LEHTINEN. Thank you, Mr. Lande.

Mr. Marrero.

#### **STATEMENT OF MR. LOUIS MARRERO, PRESIDENT, SPECTRA COLORS CORPORATION**

Mr. MARRERO. Thank you very much for having me here today, Madam Chairperson.

Speaking from personal experience of a minority-owned and small business, South American companies prefer to buy from the

U.S. Perception and reality is that we have quality and assurance, consistency in supply, price stability, and quick delivery.

On the perception of consistency, in many cases it's true, many companies do not provide the service needed. As a small business, we find that we enhance our sales by providing the quality of sales and services larger companies do not offer and those countries do not have.

We, the United States, are more attractive because of our economic stability. The reliability of our stable currency will assure prospective clients a similar course within the business cycle.

In order to further expand sales exchanges with these economies, we must avail easy liquidity to stimulate commerce or we must have affordable, accessible credit insurance programs for small businesses.

Foreign investment by the U.S. companies is restricted because of the uncertainty of the economies. Small companies have to take risk in selling on open and un-secure terms.

FTAA can be the salvation of many of the weaker economies in the region by means of buying and selling commodities without paying duties.

With the U.S. leading the effort in the export market, the regional economies will benefit directly by making the cost relatively level with product coming from the Far East.

In fact, FTAA should be an expansion of the MERCOSUR and other agreements in which all participating companies freely trade without paying duties for goods bought and sold within the group.

The United States has a leg up on the rest of the world as long as we are competitive. Our close ties with the Americas is a decisive force in decisionmaking in our favor.

Europe has not gained on the United States because of the distance and lack of competition. Our costs seem to be lower than Europe, therefore we can sell better prices. The quality is good.

Asia is our main competition. China and India's lower-priced products are available throughout the world. While they lack some of the communication skills needed in South America and other places, they are gaining very fast.

Spectra Colors Corporation products are very desirable throughout the world because of our technology, quality consistency, and sometimes competitive pricing.

Obstacles in soliciting export business, the high expense of traveling international versus domestic travel in the United States, we lack economic, political, and knowledge of foreign customs and ways outside the United States. We have an unsafe feeling brought on by the news reports which show violence and confrontations to the American people. Currency differences and instability, of course, are a problem. Lack of pre-qualification of potential accounts is difficult or nonexistent.

My belief in how to promote U.S. business abroad—make more businesses aware of U.S. offices abroad. They have a low-cost program in qualifying new potential businesses and contacts, therefore make a trip abroad more productive by pre-qualifying each contact.

Local representation is another key to selling in other countries. Web-sites promote American businesses throughout the world.

World trade missions open doors easier than traveling alone. U.S. credit issuers will sell with lower risk and peace of mind.

That is all I have. Thank you.

[The prepared statement of Mr. Marrero appears in the appendix.]

Ms. ROS-LEHTINEN. Thank you so much. We appreciate it. Thank you so much for being with us.

I have a general question for the three of you, and you may answer it in any way that you would like. Many of you have addressed that in your testimony already.

To what do you attribute the growing U.S. trade deficit with countries in the Hemisphere? Would you agree with the argument raised by the Department of Commerce and USTR, who attribute it to foreign economic weakness versus a strong U.S. market, or do you see other factors, and how confident are you that the FTAA will strengthen our position in this trade imbalance?

Dr. HAAR. I would say the manifestation of the trade deficit in the United States is due to reasons far beyond the trade deficit itself. Fundamentally, one could argue that deficits are neither good nor bad; the question is the ability to service deficits without causing economic calamity.

The Greenspan-led economic growth cycle continues led by the expansion of credit in the United States at the consumer level—I am a perfect example of that; I use my Visa card to pay my Master Card bill. You have excessive levels of debt incurred both in the public sector and in the private sector, and I think that is attribution of a strong and growing economy.

I do not necessarily believe that, with or without the FTAA, that is necessarily going to get worse. I think the question is these deficits are going to continue, and through a pro-growth approach to economic policy and employment, I think it is certainly going to be manageable unless there is an economic downturn.

I do not see the notion of the United States being flooded with cheap exports as a way of sopping up excess unemployment in developing countries. I just do not buy that argument.

Ms. ROS-LEHTINEN. Thank you.

Mr. Lande?

Mr. LANDE. On a global basis, I do accept, certainly, the position of the Department of Commerce. However, vis a vis Latin America, where microvariables are perhaps just as important, I definitely believe that the extension of preferences, preferential agreements to which the United States is not a party is part of our problem, and it will get worse.

Brazil's extension has just been recently put into effect. Europe is knocking on the door in terms of its own agreements. When Europe starts entering into preferential agreements—Chile is negotiating with Korea a free trade agreement. Where are we? They want to negotiate with us.

I would just emphasize the fact that Central America has requested negotiating preferential agreements with the United States

They will accept continuation of CBI, but they really want to have a fully reciprocal agreement with the United States, where you exchange benefits, but the United States is not in a position to negotiate with them because of fast-track.

The Andean Pact certainly has indicated a desire to negotiate free trade with the United States Argentina, before they went to Brazil, wanted to negotiate free trade with the United States. Certainly, Chile wanted to negotiate free trade with the United States

When you put the thing together, it is my own view very much that enactment of fast track by Congress is the best thing you can do to deal with the threatening micro-level kinds of trade deficits with Latin America.

Ms. ROS-LEHTINEN. Thank you, Mr. Lande.

Mr. Marrero?

Mr. MARRERO. Yes. In my experience, restrictions from the U.S. Government have kept us from growing, importing or exporting. Pricing, of course, is a big issue overseas. Lack of manufacturing in the United States—very little can be made in the United States A company cannot go and start manufacturing something without the red tape that would cost much more than most small companies like ourselves can afford.

Restrictions on imports and exports—it has always been the case with duties, in both directions, sent to those countries and, of course, here.

From what I see, we—most of the time, we are a little too late, with too little. We are being left behind by the other countries. They are making their own agreements with anybody that will listen. We are not listening, I guess, or we are not listening in the right way.

Ms. ROS-LEHTINEN. Mr. Brady.

Mr. BRADY. Thank you for being here today.

The issue of failure of U.S. leadership was broached again today regarding FTAA, and it gets embarrassing that a nation founded on competition and the open marketplace would be at a time where it is Lewis and Clark days around the world, where every country staking their lucrative claims to good markets, that we are handicapping ourselves, afraid to compete.

My question to you is, if you could deliver any message to Congress and to our next President on the importance—on what we need to do to retain—regain the leadership role in free trade for the Americas, what message would you deliver?

Dr. Haar, do you want to start?

Dr. HAAR. I would say, regardless of who is going to be elected in November, initially there will be a honeymoon, and I think, if the Congressional leadership and the incoming administration can sit down and say let us show to the people of the United States and the world, our trading partners in Latin America, that truly we want to work together. Let us not take a revisionist approach to fast track, because clearly nothing has prevented the President from sending Congress a fast track bill it can live with, that is one side of the equation. The other is: Is Congress willing to give the President an authority that, perhaps has been oversold by a number of trade negotiators in the United States?

Ambassador Moss, Director of the North-South Center, with Mr. Lande, wrote a brilliant paper arguing that you can have movement and progress without fast track. Still, fast track, symbolically, should be something that the incoming administration and Con-

gress should work out immediately in the spirit of cooperation and bring some bipartisanship back to foreign policy.

I think that would advance not only trade integration but economic and political policy, as well, because there is linkage.

You cannot isolate trade policy. I believe that economic policy drives trade policy, not the other way around. Cooperation with our partners in the areas of, environmental surveillance, drug trafficking and peacekeeping, depend upon bipartisanship—the Administration and Congress working together.

Mr. BRADY. Let us start fresh, because we have got a lot of steps.

Dr. HAAR. Yes.

Mr. BRADY. Mr. Lande.

Mr. LANDE. If I had my own choice, I would suggest that the President, depending on which political party he is from, appoint either Ros-Lehtinen or Congressman Menendez Secretary of State, or at least listen to their advice in this particular trade policy area.

Since I do not know whether you want to leave Congress or not, I will not push that, but I will say that two things has to be done, and I think first it might be Congress. I think that it is extremely important that Congress focuses on this fast-track issue.

There is enough ideas out there, there is enough people who carry the view of the United States future in hand that they should be able to work out some understanding on dealing with this fast-track issue, whether it involves a special study group to be established that will report back, whether it involves just an informal meeting of various leaders of important committees, I do not know, but it is something that really should address.

If you are going to do something—

Mr. BRADY. So, ignore the President and Congress.

Mr. LANDE. I would say that it would make a lot of sense for whoever the new President is and so on that there be some Congressional consensus perhaps made on this particular issue.

I never suggest ignoring a President, for obvious reasons, but it is a question—we have a new day, and I do not believe there is going to be a fast-track push for the next year-and-a-half by the current President, so I think the question is there for the future.

As far as the issue goes, and if I was the President and I had no consensus as to fast track, I would go down the non-fast track route.

Chile has indicated a willingness to negotiate with the United States now without fast track.

They have set up—I do not know if you are familiar, but a bunch of—there is now—they have suggested to the United States that a commission be established to look at issues that are part of a free trade agreement without necessarily calling it negotiation.

Central America has requested that, once CBI enhancement is finished—and again, hopefully, it will be finished this session of Congress—that perhaps a free trade agreement makes sense with that particular of the world.

If I was the President, I would grab the bull by the horns and I would say I am negotiating, that is my constitutional right. I would bring back an agreement.

Fast track is not holier than thou, because as you know, amendments—there are various procedures in the House now where you

can have a bill without allowing it open for unlimited amendments, but in the Senate you need 60 votes anyway to pass trade agreements, often, even with fast track because of the budgetary requirements, the funding.

I would not sit there and start bemoaning the fact that I do not have fast track.

In short, it would be really good if Congress could work out their own understanding, which are really Congressional issues you have got to deal with, labor and environment, and I am not saying you do not protect them. I am saying you come up with effective ways to deal with labor and environment and trade, and then, if I was the new President, whether you did it or not, I would take my honeymoon period and I would send out a negotiator, maybe Jerry Haar, because he speaks so clearly and so forceful, and I would move in that direction.

Thank you.

Mr. BRADY. Thank you.

Mr. MARRERO. Small businesses are the fastest-growing entities in the United States. A lot of us are exporting. Include us and help us to be more competitive by making agreements to facilitate our trade. Simple as that.

Mr. BRADY. Thank you very much.

Ms. ROS-LEHTINEN. Thank you.

Thank you so much. We thank the panelists for being with us, and the Members and the audience, as well, and this Subcommittee is now adjourned.

[Whereupon, at 12:27 p.m., the Subcommittee was adjourned.]