

ECONOMIC DEVELOPMENT

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The presentation discusses this Administration's policies to stimulate global economic growth and development. Further discussion centers on how these policies are being integrated into our trade relations with Latin America, the Caribbean Basin and Mexico.

I. THE ADMINISTRATION'S OVERALL TRADE POLICY

The Reagan Administration recognizes the importance of an open and equitable world trading system. The Administration is basing its international economic policies on the principles of open markets and free trade. The benefits of a free and open international trading system were first identified for us in Adam Smith's treatise on the *Wealth of Nations*.¹ It is unfortunate that hundreds of years later, we have still not been able to achieve this goal. For its part, the Reagan Administration is firmly committed to the reduction and ultimate elimination of the remaining barriers to trade. If successful, as Adam Smith pointed out, all countries would benefit.

Unfortunately, our task is not an easy one. The International Trading System is currently facing one of the most serious threats since the proliferation of "Beggars thy neighbor" policies in the 1930s. The concept of free and open markets is under extreme pressure. Many countries now produce highly competitive products. In the market place, government concern about declining and slowly improving rates of growth is more frequent. World patterns of trade are changing. Developing countries have become competitive in a wide range of manufactures and now challenge the industrialized countries in domestic and foreign markets.

Economic difficulties have led to growing pressures around the

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1. See generally A. SMITH, *THE WEALTH OF NATIONS* (London 1776).

world to increase protectionism,² restrict imports in order to preserve jobs and maintain declining industries. In some countries this pressure has resulted in bilateral trade arrangements which either limit or distort trade flows. We are witnessing an increased use of investment regulations which require producers to meet local procurement guidelines or commit themselves to certain levels of export. Some countries that benefit greatly from the open trading system have failed to open their markets adequately and thereby take unilateral advantage of the open trading countries.

This Administration is determined to resist protectionist pressures. Open trade on the basis of mutually agreed upon rules is in our best economic interest; it is in everyone's interest. It is the only available path which promises efficient utilization and allocation of resources on a global scale. It is the only sure course toward global economic growth and progress.

We are pursuing policies aimed at the achievement of an open trading system through the elimination of trade barriers and trade-distorting policies. In seeking these fundamental objectives, we are focusing on a number of policies. These are: (1) restoration of healthy, non-inflationary domestic growth in industry, agriculture and services; (2) improvement of international trade rules; (3) elimination or reduction of export disincentives and better management of government programs promoting United States exports; (4) pursuit of an effective approach to industrial adjustment problems; and, (5) effective enforcement of United States trade laws and international trade agreements.

A healthy United States economy is essential in terms of restoring our competitive position in overseas markets. President Reagan's Economic Recovery Program³ is designed to set the United States economy back on the path of self-sustained, non-inflationary growth by increasing investment incentives and the availability of capital, removing needless government regulations and fostering stable growth of the money supply. Recent trends in United States productivity and investment have weakened our ability to compete abroad and have eroded our industrial base at home. We are convinced, however, that the implementation of our recov-

2. For a discussion of growing protectionism, see Green, *The New Protectionism*, 3 NW. J. INT'L L. & BUS. 1 (1981).

3. See Program for Economic Recovery, President Reagan's Address before Joint Session of Congress, 17 WEEKLY COMP. PRES. DOC. 130 (Feb. 18, 1981); Program for Economic Recovery, President Reagans Address to the Nation, 17 WEEKLY COMP. PRES. DOC. 1024 (Sept. 24, 1981).

ery plan will improve United States competitiveness at home and abroad.

II. TRADE RELATIONS WITH DEVELOPING COUNTRIES

Within this broad trade-policy framework, relations with developing countries have been singled out by this Administration for special consideration. The United States fully recognizes the importance of these developing countries to both the United States economy and to a strong world economy. An increasing portion of United States exports of manufactured and agricultural products is absorbed by developing countries. In 1970, 26 percent of United States exports were marketed in developing countries.⁴ By 1980, this figure had grown to 36 percent.⁵ This growing market for United States goods is vital to our mutual economic welfare. The developing countries' ability to import our products is dependent upon market access for their goods and the availability of financing. In 1980, the value of United States imports from the developing countries was \$113 million⁶ which included 50 percent of their total export of manufactures.

These statistics clearly illustrate that the United States is endeavoring to improve trade between itself and the developing countries. At the same time, the Administration is committed to helping the countries of the Western Hemisphere keep this region politically stable. A number of countries are exposed to subversion of great subtlety and sophistication by Cuba.

Throughout much of the postwar period, the countries of the Western Hemisphere compiled an enviable economic record of sustained growth which was accompanied by the emergence of strong entrepreneurial classes. But in some of these countries success has been lopsided in that it has been unaccompanied by broad opportunities for participation in political decision-making. This has resulted because of a lack of progress, both in controlling corruption and providing more equitable distribution of income.

In addition, these countries have had internal enemies consisting of small insurrectional groups, often of middle-class origin, who are deeply divided over tactics. Old-line communists argue that no revolution could occur before the objective conditions for it existed.

4. U.S. BUREAU OF THE CENSUS, STATISTICAL ABSTRACT OF THE UNITED STATES 1981 at 846 (102d ed. 1981).

5. *Id.*

6. *Id.*

Others believe that dramatic or daring acts such as kidnappings and raids would radicalize the people. Typically, a gulf has separated the unions and peasant organizations from the small groups of violent insurgents. Cuba has taken advantage of these circumstances.

Cuba is now attempting to establish Nicaragua as a forward base of operations with a large army and intelligence apparatus already in place, supported by six to eight hundred Cuban military advisors. Armored personnel carriers, tanks and jets are reported to be in transit. Although at a lower rate than this winter, Cuba's efforts to supply Nicaragua with arms, headquarters and guerrillas from neighboring countries have continued.

In the Caribbean Islands, Cuba has hoped to destabilize fragile governments beset by high unemployment and the double impact of high petroleum and low commodity prices. In Jamaica, Cuba relied heavily on radical groups who desired to turn the country further to the left. But Cuba failed when the Jamaican people gave Edward Seaga an unprecedented electoral victory in October, 1980.⁷ Although Cuba has been more successful in tiny Grenada, eight other islands have clearly rejected radical solutions through the ballot box.

Our response to the Cuban challenge is clear. First, we will help threatened countries defend themselves. There is no alternative once insurgents take arms with outside support. As we have seen in El Salvador, great resources are not required; rather timing and a demonstration of will are critical factors. Second, we will help threatened countries to preserve their people's right to self-determination. Political and social progress would include the involvement of broader sections of the public in decision-making through legitimate elections, the carrying out of appropriate land reforms, or containment of violence from whatever quarter. This approach must be accompanied by military assistance. Third, we will focus on the source of the problem. Cuba has become a disturbed society with a poverty level now lower than existed at the time of the revolution. A fifth of its citizens may wish to emigrate. Cuba is dependent on Soviet aid which consists of \$8 million per day. Yet it plays Gurkha to the Soviet imperialists in Africa and threatens nearly all of its neighbors. Those who said that Cuba would, with time, become a status quo power must now recognize

7. Edward Philip George Seaga is the present Prime Minister of Jamaica.

that they were wrong. In 1977, when the United States raised the question of normalization, Cuba intervened in Ethiopia and then launched an offensive in the hemisphere. Cuba has declared covert war on its neighbors—our neighbors.

Ultimately, genuine stability can only be based on long term economic prosperity. Growing global economic interdependence is one of the most important international developments of the post-war period. President Reagan, in speeches in Philadelphia⁸ and at Cancun,⁹ has emphasized that this growing interdependence requires us to give fresh impetus to development by devising a new strategy for growth. This strategy will be based upon the following five fundamental principles: (1) stimulate international trade by opening up markets, both within and among countries; (2) tailor developmental programs to the specific needs and potentials of individual countries and regions; (3) target assistance programs toward the development of self-sustaining productive capacities, particularly in food and energy; (4) encourage developing countries to improve their domestic climates for private investment, both indigenous and foreign; and, (5) work to create and support a stable and democratic political environment in which tangible progress towards solving the problems of development can be realized.

This action program to spur economic development in developing countries will consist of practical steps to implement these principles. We will continue to build upon our past and impressive record of contribution to developing countries. In the last ten years, we have provided to developing countries \$43 billion in development assistance and \$14 billion in contributions to multilateral development institutions. In addition, our action program will combine trade, investment and aid measures in a coordinated and comprehensive approach to solving development problems. We will systematically develop bilateral and regional programs to implement the machinery needed to create conditions conducive to development. This approach to economic development can perhaps best be illustrated by reviewing the priority attention which is being accorded to South America, the Caribbean Basin and Mexico.

8. President Reagan's Remarks to the World Affairs Council of Philadelphia, 17 WEEKLY COMP. PRES. DOC. 1137 (Oct. 15, 1981).

9. President Reagan's statement at the First Plenary Session of the International Meeting of Cooperation and Development in Cancun, Mexico, 17 WEEKLY COMP. PRES. DOC. 1185 (Oct. 22, 1981).

III. TRADE RELATIONS WITH SOUTH AMERICA

A major goal for the Administration is to respond to the new realities of South America: to the broad movement toward a return to constitutional rule and democratic practice, to South America's remarkable economic progress and still greater potential and to South America's growing strategic importance.

The broad trend is unmistakably toward liberalization. Brazil's impressive *Abertura*¹⁰ is well advanced; rights violations are largely a thing of the past and direct state and municipal elections are scheduled for next year. After more than a decade of military domination, both Ecuador and Peru have returned to parliamentary rule. In Argentina and Chile, violations of human rights have sharply decreased. Moreover, the continued vigor of democratic systems in Venezuela and Colombia is an important element of strength.

In the 1970s, no continent grew more in economic terms than South America. Brazil doubled its real output in less than ten years,¹¹ producing half of the continent's gross domestic product (GDP) and becoming the world's tenth largest economy. Chile has opened its economy to the stimulus of free competition which is now booming. Meanwhile, Venezuela has turned a part of its vast resources into an instrument of help for its less fortunate neighbors.

The potential for growth in this decade is no less impressive, but the obstacles to be overcome will be at least as great as they were in the 1970s. Some countries have high indebtedness resulting from past investment and high prices for imported petroleum. Other countries need markets for agricultural goods and a growing volume of manufacturers.

Clearly the potential of this region cannot be fully realized unless the United States and the individual countries of South America are able to achieve greater levels of cooperation in our economic relations. The United States still absorbs a full quarter of all the goods and commodities exported from South American countries,¹² who in turn depend on American sources for 28 percent

10. *Abertura* is a Portuguese term meaning a policy of political relaxation that permits the emergence of a more broad ranged party spectrum in anticipation of state and congressional elections in 1982. See POLITICAL HANDBOOK OF THE WORLD: 1981 at 94 (A. Banks & W. Overstreet ed. 1981).

11. See 3 No. 3-4 STATISTICAL BULLETIN OF THE OAS 32, Table No. A-2 (July-Dec. 1981).

12. See 1979-1980 STATISTICAL Y.B. 502-10, U.N. Doc. ST/ESA/STAT/SER.S/7 (1981).

of their imports of goods. In addition, the bulk of foreign bank lending comes from the United States. Our mutual dependence is so high that only the most careful joint management of our economic affairs can assure success. This Administration is committed to achieving such cooperation.

Finally, we must recognize the growing strategic importance of the South Atlantic. The construction of supertankers and the world's dependence on Persian Gulf oil have made the South Atlantic the energy lifeline in the modern world. Forty-six percent of our petroleum imports, sixty-six percent of West Europe's, and almost all of Brazil's are carried through or across the South Atlantic. Protection of this commerce is of vital importance.

IV. TRADE RELATIONS WITH THE CARIBBEAN BASIN

A second policy priority of this Administration is to help the countries of the Caribbean Basin realize rapid economic development and achieve political stability. The people of the Caribbean Basin are our immediate neighbors. We are dependent on each other both economically and politically. The security of this hemisphere is directly threatened if the politics of Caribbean countries become more unstable, if their economies fail, or if their citizens believe that unauthorized entry to the United States offers the only escape from a future of political violence and abject poverty.

The United States response to this challenge is clear. First, we must continue to work closely with other interested countries, especially Venezuela, Mexico and Canada, in order to foster development in the Caribbean region. These countries also have a direct stake in the future of the Caribbean Basin nations and are already contributing significant amounts of official assistance. Second, we can only succeed if the countries of the Caribbean Basin are fully engaged in the planning and implementing of the development program. Most developing countries now acknowledge that the major impetus to development must come from domestic forces. Third, one of our main objectives is to help Caribbean Basin countries to create a new and competitive production capacity and to take better advantage of existing human and capital resources. Trade, aid and investment measures must be coordinated into a comprehensive package designed to stimulate orderly and effective growth. The program's successfulness will also be dependent on engaging the vitality and energy of the private sector, and not relying exclusively on government intervention. The Caribbean Basin countries must

develop an environment conducive to both foreign and domestic investment.

In addition to stimulating supply to spur development, it is recognized that action on the demand side is also needed. The United States has a potentially large role here. We currently import nearly three-fifths of the area's exports, with 87 percent of the exports entering duty-free. Because the economies of Caribbean countries are small, greater access to the United States market could have a major impact on their economic future. Because they are so small, increased access for these countries need not, and with appropriately designed safeguards will not, disrupt United States markets. Therefore, we are examining the possibility of expanding access into the United States market for Caribbean products. This policy is consistent with the open trading policy of the Administration and its commitment to assist developing countries.

Finally, a coherent plan cannot be established without increasing the official assistance now granted to the area. Additional assistance can come from the international financial institutions, but it must also come from the United States. Despite severe budget constraints, we are thus seeking an increase in our bilateral programs. Moreover, while the overall action concept must be multilateral, it is believed that the actual implementation should be bilateral. Potential participants are too heterogeneous for us to forge a simple multilateral blueprint that is appropriate for all. We must cooperate, coordinate, and be mutually supportive without expecting automatic consensus or conformity.

V. TRADE RELATIONS WITH MEXICO

Our aim concerning Mexico is to develop a relationship of cooperation and mutual sensitivity which recognizes Mexico's important role in our affairs and in those of the world. Mexico is now our third largest trading partner, and will likely become second by the end of this decade. As early as 1985, bilateral trade with Mexico could reach a value of \$80 billion. Notwithstanding this recent trade boom, the history of United States-Mexican trade relations shows that for too many years, the United States neglected its commercial ties with Mexico; the reason is not hard to find. Including even the recent growth in our bilateral trade, United States trade with Mexico in 1980 accounted for only 6 percent of United States global trade. Mexican trade with the United States, however, accounted for two-thirds of Mexico's global trade. This explains in

part why the United States has tended to focus on multilateral issues while Mexico has focused on the bilateral side.

We can no longer afford to assign secondary importance to our relations with Mexico. It is for this reason that President Reagan looked first to the establishment of a relationship of equality, harmony and trust between our two nations. At Camp David in June 1981, Presidents Reagan and Lopez-Portillo recognized that a continuing boom in trade between the United States and Mexico will bring greater economic development to Mexico and new export opportunities to United States businesses. But the leaders also foresaw potential problem areas as our entire spectrum of relations continues to expand. In order to resolve these problems before they undermine the broader United States-Mexican commercial relationship, the two Presidents decided to create a Joint Commission on Commerce and Trade.

This Commission was established in Washington in the last week of June, 1981. On the United States side, the Commission is chaired by Secretary of Commerce Baldrige and United States Trade Representative Brock; on the Mexican side by Secretary of Commerce de la Vega. One of the unique aspects of the Joint Commission is its mandate to provide the private sector access to the decision-making process. Close cooperation with the United States business community is an important aspect of the success of the Commission's work, and is consistent with President Reagan's philosophy of relying on market forces to direct our commercial relations with our trading partners. One other point that is most important to understanding the purpose of the Joint Commission is that it was not designed to be simply a forum for discussion. The two Presidents expect that the Commission has a broad mandate to improve and promote the trade and commercial relationship between the United States and Mexico.

The work program resulting from the inaugural session of the Joint Commission spells out an ambitious agenda for the future. Some of the issues we will continue to bring to the attention of Mexican officials in the course of our continuing consultations include performance requirements, import licensing restrictions, Mexican incentive programs, and customs and visa regulations.

VI. CONCLUSION

The foregoing discussion has outlined the broad principles which will guide this Administration's approach to Latin American

economic development issues. There will be future announcements of specific proposals to deal with pressing development needs in this region. We will continue to build on our record of past contribution to development and will devise bilateral and regional initiatives to contribute to the process of generating sustained growth. We will encourage developing countries to diversify exports; we will target our assistance to those most in need; we will seek to incorporate all developing countries more fully into the GATT system.¹³ Let me conclude by stressing that this Administration believes it is essential to our own prosperity that all prosper. We will seek to assure maximum opportunity for economic development for those countries which are ready to join us in this effort.

13. *See* General Agreement on Tariffs and Trade, *opened for signature* Oct. 30, 1947, 61 Stat. A3, T.I.A.S. No. 1700, 55 U.N.T.S. 187.