

AD-A093 023

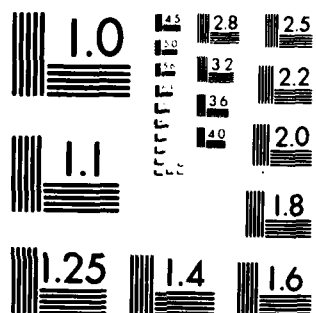
DEPARTMENT OF STATE WASHINGTON DC OFFICE OF EXTERNAL--ETC F/G 5/4
THE AMERICAS IN A CHANGING WORLD.(U)
OCT 74

UNCLASSIFIED

FAR-20731

NL

END
DATE
FILMED
2 81
DTIC



MICROCOPY RESOLUTION TEST CHART
NATIONAL BUREAU OF STANDARDS 1963-A

AD A093023



DEPARTMENT OF STATE

WASHINGTON, D.C. 20520

February 6, 1980

Mr. Harry Schrecengost
Defense Technical Information
Center
Cameron Station
Alexandria, Va. 22314

Dear Mr. Schrecengost:

Permission is hereby granted to the Defense Technical Information Center to accession into its collection all the U.S. Department of State supported contract studies contained in the seven boxes obtained from the Foreign Affairs Research Documentation Center on February 6, 1980.

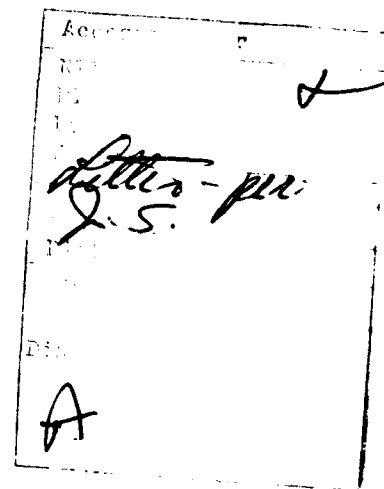
Permission is also granted to further disseminate these documents into the private sector through the National Technical Information Service of the U.S. Department of Commerce.

Sincerely,

Edward N. Lundstrom
Research Documentation Officer
Office of External Research
Bureau of Intelligence and Research

THE AMERICAS IN A CHANGING WORLD

Report of the
Commission on United States - Latin American Relations



Washington, D.C.
October, 1974

MEMBERS OF THE
COMMISSION ON UNITED STATES - LATIN AMERICAN RELATIONS

CHAIRMAN
Sol M. Linowitz
Attorney, Coudert Brothers

W. Michael Blumenthal
Chairman, Bendix Corporation

Harrison Brown
Professor of Science & Government
California Institute of Technology
President, International Council
For Scientific Unions

G. A. Costanzo
Vice Chairman
First National City Bank

Albert Fishlow
Chairman, Department of Economics
University of California, Berkeley

J. George Harrar
President Emeritus & Consultant
The Rockefeller Foundation

Rita E. Hauser
Attorney
Stroock & Stroock & Lavan

Alexander Heard
Chancellor
Vanderbilt University

Henry J. Heinz II
Chairman, H. J. Heinz Company
Chairman, The Agribusiness Council

Andrew Heiskell
Chairman, Time Inc.

Rev. Theodore Hesburgh, C.S.C.
President
University of Notre Dame

Lee Hills
Chairman & Chief Executive Officer
Knight Newspapers, Inc.

Samuel P. Huntington
Professor of Government
Center for International Affairs
Harvard University

Nicholas deB. Katzenbach
Corporate Vice President & General Counsel
IBM Corporation

Thomas M. Messer
Director
The Solomon R. Guggenheim Museum

Charles A. Meyer
Vice President
Sears, Roebuck & Company

Arturo Morales-Carrion
President, University of Puerto Rico

Peter G. Peterson
Chairman, Lehman Brothers

Elliot L. Richardson
Distinguished Fellow
Woodrow Wilson International Center
For Scholars

William D. Rogers*
Attorney, Arnold & Porter

Nathaniel Samuels
Partner
Kuhn, Loeb & Company

Kalman H. Silvert
Professor of Politics
New York University
Program Advisor
The Ford Foundation

Clifton R. Wharton, Jr.
President, Michigan State University

*Note: Resigned as of September 18, 1974 after appointment to position
of Assistant Secretary of State for Inter-American Affairs.

COMMISSION STAFF

Arnold Nachmanoff, Executive Director

Ann Kieswetter, Associate Executive Director

Ann Harrington, Research Assistant

Gregory Treverton, Rapporteur

Deborah Witonski, Secretary

Abraham Lowenthal, Special Consultant

CONSULTANTS TO THE COMMISSION

Carlos Diaz Alejandro

Ann Hollick

Jack Baranson

Robert Hormats

C. Fred Bergsten

Roger Leeds

Thomas Buergenthal

Theodore Moran

Jose A. Cabranes

Henry Raymond

Robert G. Cox

Riordan Roett

Jay Davenport

David Ronfeldt

Jorge Dominguez

Thomas Skidmore

Julien Engel

Philip Trezise

Richard Fagen

Franklin Tugwell

Roger Hansen

Bryce Wood

Stanley Hoffmann

PREFACE

When I was asked to assume the Chairmanship of this Commission, I had reservations about undertaking a new study of United States - Latin American relations. I knew that over the years, there had been a steady stream of studies setting forth proposals for U.S. relations with the countries of the hemisphere. Too often, those reports merely gathered dust on crowded shelves, disappointing those who hoped their recommendations might be translated into actions.

Not surprisingly, many of my colleagues also raised the question of why a new commission was needed at this time to study and report on United States - Latin American relations.

We came to the same conclusion: that the fundamental changes which have taken place in the world, within Latin America, and in the United States in recent years make timely -- and indeed urgent -- a reordering of relationships in this hemisphere. It was our conviction that these developments demanded a fresh assessment of the state of those relationships and of the premises upon which past U.S. policies have been based. They also called for new efforts to alter specific U.S. policies to reflect the changing realities of the 1970s.

In undertaking this project, we were encouraged by signs of growing recognition in Washington and other hemisphere capitals that constructive regional relations are important to all of us. The meetings of Foreign Ministers in Mexico City, Washington, and Atlanta earlier this year opened a frank new dialogue between the United States and its Latin American neighbors. Settlements were achieved on long-standing bilateral disputes between the U.S. and Mexico, and between the U.S. and Peru. There was progress in negotiations toward a new Panama Canal treaty. These and other promising signs convinced us last May, when the Commission was established, that the time was opportune for a new study.

The Commission, twenty-three members in all, is an independent bipartisan group of private citizens from different sectors of U.S. society. Many have had extensive experience in Latin American affairs. Several have served in high governmental positions involving foreign policy. All have a deep and abiding interest in improving hemispheric relations.

The report that follows summarizes our findings and submits our recommendations after five months study, discussion, and sometimes heated debate. The report does not pretend to be all-inclusive.

Instead it suggests an overall U.S. approach in the hemisphere, and attempts to give meaning to that approach by making specific recommendations for action on those issues deemed most important and troublesome.

Our recommendations are addressed to the people and government of the United States; we have not presumed to prescribe to Latin America. It is our hope that the report will stimulate discussion and consideration within the executive and legislative branches of the U.S. government, but also among citizens' groups, the media, scholars and businessmen throughout the nation. Broad popular support will be essential to bring about the kinds of policy changes we recommend.

The Commission drew upon a wide spectrum of informed U.S. and Latin American opinion as well as the varied individual experiences of its members in the course of our study. It would be impossible to express here our thanks to each of the individuals who have contributed to the Commission's work, but we owe a debt of gratitude to the many scholars, diplomats, officials of international agencies, journalists, businessmen, and others who gave the Commission the benefit of their expertise and advice. I also want to express, on behalf of the Commission, our appreciation to the Center for Inter-American Relations for its stimulus and sponsorship of this project, and to the Ford Foundation, the Rockefeller Brothers Fund, and the Clark Foundation for their financial support.

Finally, all of us on the Commission would be remiss if we did not extend our sincere appreciation to the Commission's Executive Director, Arnold Nachmanoff, and Associate Director, Ann Kieswetter, for their tireless efforts and many useful contributions. In addition, we would like to thank Abraham Lowenthal, Special Consultant, Gregory Treverton, Rapporteur, Ann Harrington, Research Assistant, and Deborah Witoniski, Secretary, for their invaluable support of the Commission's work.

One final personal note. We, in the United States, too often see our neighbors to the South as a source of problems. I believe we would do well to consider how much the Latin American nations can contribute to solving the problems that beset all of us in this interdependent world. There are great talents, diverse resources, and a rich heritage of common ideals in this hemisphere. The United States and the nations of Latin America complement each other and need each other.

Luis Quintanilla, a distinguished Mexican writer and diplomat, referring to the Western Hemisphere, once wrote:

"Not only do geographical closeness and similar historical

backgrounds bring us together, but we share in common an idea about the organization of society and of the world. In other words, to face the fact of America is to glance at any map. From pole to pole, from ocean to ocean, we are all in the same boat, we were created to live together."

A unique opportunity exists today for the United States and its neighbors to work together in shaping a world in which our common interests will be served and our common ideals advanced. It is my hope that this report will be a helpful step in that direction.

SOL M. LINOWITZ

Washington, D.C.
October 29, 1974

CONTENTS

	Page
I. A Changed United States Approach to Latin America.....	1
II. The New Context of United States - Latin American Relations.....	4
A. The Global Context.....	4
B. The Latin American Context.....	5
C. The United States Context.....	9
III. Toward a New Framework for United States Policy.....	11
A. U.S. - Latin American Cooperation in the Global Arena.....	11
B. Sensitivity of General Policies to Latin American Interests....	12
C. The Elimination of Paternalistic and Discriminatory Policies...	13
D. Respect for Human Rights.....	13
E. Cooperative Economic Relationships.....	14
IV. Political Relations.....	15
A. Non-Intervention, Political Diversity and Human Rights.....	15
B. Cuba.....	18
C. Panama and the Panama Canal.....	21
D. Arms Transfers and Military Assistance.....	23
E. Economic Sanctions.....	27
1. Expropriation and Fisheries Disputes.....	27
2. The Inter-American Development Bank.....	29
F. The Organization of American States.....	31
V. Cultural Relations.....	33
VI. Economic Relations.....	36
A. Access to Markets.....	36
1. Tariff Preferences.....	36
2. Export Subsidies and Countervailing Duties.....	38
3. Domestic Adjustment Assistance.....	39
4. Commodity Arrangements.....	40
B. Capital Flows.....	42
1. Public Capital.....	42
2. Foreign Private Investment.....	44
3. OPIC Guarantees.....	47
4. Capital Markets.....	47
C. Transfer of Science and Technology.....	48
VII. Directions for the Future.....	53

→ The report that follows summarizes findings and submits recommendations on U.S. approach to Latin America.

I. A CHANGED UNITED STATES APPROACH TO LATIN AMERICA

The United States should change its basic approach to Latin America and the Caribbean.

Dramatic transformations within Latin America and the Caribbean, major developments in the wider international arena, and significant changes in the terms on which this hemisphere relates to the rest of the world, all have undermined the assumptions which governed U.S. policy in the Americas from the Monroe Doctrine through the Good Neighbor policy to the Alliance for Progress and its successor, the Mature Partnership. We strongly believe that the policies which the United States has inherited from the past -- including many of their most basic assumptions and goals -- are inappropriate and irrelevant to the changed realities of the present and the trends of the future.

Consider a few examples of how dramatically Latin America* and the United States, and their relations with the world have changed in hardly more than a decade:

--Ten years ago, almost any form of cooperative action among Western Hemisphere nations required U.S. initiative and leadership; today, the effective functioning of the Andean Pact and other bodies indicates that Latin American countries are fully capable of cooperating in their own interests, without and, at times, against the United States.

--A decade ago, the United States was deeply involved militarily, economically, politically in many areas of the world and was about to embark upon a long and tragic war in Indochina; today, U.S. involvement in that war is over; the U.S. military presence overseas has been sharply reduced; economic and military assistance programs have been lessened; a "low profile" adopted.

--Ten years ago, the Cuban missile crisis was a recent memory and the Cold War was in full swing; today, relations have been opened with China; Soviet - U.S. trade is expanding dramatically; a process of detente is underway.

--Ten years ago, Latin American governments were, by and large, diplomatically quiescent and generally content to

*In the interest of brevity, the term "Latin America" is used hereafter to include South America, Central America, the Caribbean and Mexico.

follow the lead of the U.S. in the United Nations and other international bodies; today, the Latin American countries are moving out on their own in the world scene; Brazil aspires to a leading role in world affairs; and an active intra-Latin American pattern of diplomatic and economic interaction has replaced the situation in which all lines converged on Washington.

--Ten years ago, the dominant item on the agenda of U.S. - Latin American relations was U.S. concern about preventing the export of communism to Latin America; today, the dominant concerns of Latin American countries revolve around national development and access to the U.S. market for their exports.

--During the past decade economic dynamism rather than stagnation has been the norm for the region. In the early 1960s the region's gross domestic product was growing at an annual rate of 5.5 per cent (in constant 1970 dollars); since then the rate has been rising rapidly, reaching 6.9 per cent in 1972. Per capita product also rose from \$420 in the first half of the 1960s to close to \$600 in the second half. Growth in the manufacturing sector averaged 6.5 per cent during 1960-1961; by 1972, it reached 9.2 per cent.

In sum, Latin America has changed; the relations between Latin America and the rest of the world have changed; the relations between Latin America and the United States have changed; the role of the United States in world affairs has changed.

These changing realities suggest that the United States should adopt a new approach toward Latin America and the Caribbean, respectful of the sovereignty of the countries of the region, and tolerant of a wide range of political and economic forms. It should be concerned less with security in the narrowly military sense than with shared interests and values that would be advanced by mutually satisfactory political and economic relations, and free of the paternalism conveyed by the rhetoric of "special relationships" while remaining sensitive to the unique qualities of inter-American relations. Above all, it should be set in a consistent pattern of global economic policies genuinely structured to make more stable and equitable the terms of exchange between the most industrialized and advanced countries and the rest of the nations of the world, including those -- many of them in Latin America -- which are rapidly expanding their participation in the world economy.

This Commission realizes that a basic change in the U.S. approach to Latin America will not be easy to accomplish. Old

assumptions and habits are difficult to discard. Lack of sustained official and general public interest in Latin America by the United States makes it hard to impress on our country's citizens, or even on its officials, how much has been happening in the Americas. But unchanging policies in the face of rapidly changing conditions is a sure recipe for trouble. Without such change, serious long-term problems could develop, to say nothing of short-term disasters.

The following pages expand on the reasons the Commission believes a new approach to Latin America is necessary and the steps it thinks the United States should take to bring its policies into line with the needs of the 1970s.

II. THE NEW CONTEXT OF U.S. - LATIN AMERICAN RELATIONS

The international landscape is today dominated by three central features:

1. The Cold War no longer overwhelms all other issues for the United States, as it tended to do for 20 to 25 years after World War II.

2. Economic and related technological problems have assumed new significance, with growing awareness of both the regional and the global interdependence of nations.

3. The nation-state, nevertheless, remains the dominant political structure of the present era, although there is an increased recognition that national behavior must be made mutually compatible with that of other nations.

Each of these trends suggests the need for a new United States approach to Latin America. Any new U.S. policy must, of course, reflect national interests, but such interests will be served by collaborating with Latin America in a way that reconciles national goals of each nation with regional and global systems of interdependence.

A. The Global Context

The global picture is changing. While the strategic political and military balance between the nuclear superpowers will continue to be a central theme in the foreseeable future, competition between the United States and the Soviet Union is changing as the two nations become increasingly burdened by the costs of nuclear competition and as they ponder the risks of nuclear confrontation.

The relative power of other nations has increased. These nations, including some in Latin America, are playing increasingly effective roles on the international scene. A freer play of forces and interests is developing in international relations.

These global shifts have had some basic effects on U.S. foreign policy. Technological advances in weaponry have reduced the need for overseas bases and alliances. The United States (and hopefully the Soviet Union) is increasingly sensitive to the need to keep local and regional conflicts outside the context of the superpower relationship, and to seek relative influence rather than the kind of absolute control which might precipitate nuclear confrontation. Revolutions in other countries and intra-regional conflicts no longer are seen auto-

matically as battlefields of the Cold War.

The impact of the oil crisis of 1973, and the specters of commodity shortages and pervasive global inflation demonstrate the extent of interdependence among nations and the fragility of the international economic order. These concerns have begun to dominate foreign policy as governments try to protect the political, social, and economic well-being of their citizens. At the same time, actors beyond direct control of governments -- multinational corporations, special interest groups, international agencies -- are impinging on national societies to a greater extent.

It is now clear that no single nation, not even one as strong and wealthy as the United States, can attain complete economic and political security in today's complex, unsettled, and interdependent world situation. Nor can any group of nations control the processes and institutions which regulate international commerce and finance. Moreover, no nation can escape into self-sufficient isolation.

What is needed is greater cooperation among all nations, large and small. New approaches need to be developed to increase world food production, to assure a proper distribution of food stuffs, and to reduce population pressures. New international approaches to control the use of the ocean and its resources must be evolved. The international monetary system must be revised to cope with such new realities as flexible exchange rates and massive transfers of oil revenues. Commodity practices and the transfer of technology all need to be studied and new formulas set up to govern these activities. Access to markets for manufactured goods are among the priorities of the more advanced developing nations, while large concessional aid and humanitarian relief is needed by the less advantaged nations.

U.S. relations with Latin America have taken on new significance in this changing global environment. The countries of the region will play an increasingly important role in confronting these global problems in the years ahead.

B. The Latin American Context

As the Commission surveys the present state of Latin America, the most striking situation in the post-World War II period is the extent to which growth is evidenced everywhere in the area. Over the past decade, Latin America has experienced the fastest population growth -- currently at an annual

rate of 2.8 per cent -- of any region in the world. If this trend continues, its current population of 300,000,000 persons will double in 25 years; that is, there will be two Latin Americans for every resident of the United States. This explosion of people has occurred simultaneously with sustained economic expansion, shown in these situations:

--Annual economic growth has, as a whole, exceeded 6 per cent a year since 1968 -- more than the hopeful planners of the Alliance for Progress had dared project. The economic performance of certain countries has been spectacular, with Brazil as a good case. Its manufacturing exports have been climbing recently at an annual rate of 85 per cent and have multiplied 20-fold since 1964.

--Foreign exchange bottlenecks which plagued Latin American economies for much of the past two decades have now largely disappeared for all but a few resource-poor countries with swollen oil bills and little to sell abroad. For most, foreign-exchange reserves have been accumulating because of high resource prices, expanded production, and a wide diversification of manufactured and raw agricultural exports.

--With the exception of the Caribbean countries (excluding Cuba), economic growth has reduced Latin American "dependence" on the United States. Of the total foreign trade of Latin American nations, 12.3 per cent was within the region itself in 1970-1972, as contrasted with only 8.2 per cent 10 years earlier. Somewhat over a third of the region's total trade is with the countries of Western Europe, Canada, and Japan. In the meantime, the U.S. share of the Latin American market has dropped from 38.5 per cent in 1960-1962 to about 32.8 per cent in 1970-1972.

--The relative importance of U.S. private investment in most of Latin America has also declined in recent years, and the type of investment has changed. Traditional massive investments in natural resources and public utilities have declined sharply, with U.S. money going more and more to manufacturing, distribution, and service industries. Moreover, European and Japanese competitors are playing a larger and more potent role.

It needs to be noted, however, that all countries in Latin America, and to some extent this applies especially to the most rapidly growing ones, suffer from very unequal distributions of wealth, income, and economic opportunity. Disparities are growing rather than diminishing. Political repression is sometimes used to maintain the hold of governments whose income policies do little to ameliorate the lot of the poorer classes in society.

In addition, the least developed economies are faced with an inability to keep up with rising world prices and ever more pressing internal demands. All Latin American nations feel themselves in need of improved access to rapidly changing technologies, and seek to protect themselves more effectively against the possibility that powerful multinational corporations will pursue interests deemed contrary to those of their host countries.

Whatever the weaknesses and problems, however, the overall economic situations of at least half the Latin American countries encourage a mood of optimism and self-confidence. Brazil is well on the way to becoming a major industrial power. Mexico has grown impressively and the recent oil discoveries make its prospects look even brighter. The countries of the Andean Common Market -- Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela --, though buffeted by political currents, are strengthening their economic ties and beginning to gain advantages from the formation of an enlarged market area and from newly discovered resources. Venezuela, oil-rich and endowed with vast natural resources, is looking about the region and even beyond for ways to invest its earnings and exert its influence.

In addition to an improved economic picture, a second reason for Latin America's greater assertiveness is the emergence throughout the region of much more powerful national governments. The role and force of the state has grown sharply in Latin America during the past two decades: governments tax more, spend more, regulate more, prohibit more and influence more than Latin American regimes used to. Technocrats, civilian and military, have become a dominant influence in Latin American politics. Although the specific forms of government vary widely in today's Latin America, there is a trend toward various types of bureaucratic authoritarianism. Elite groups which in the past fostered close relations with the United States have been displaced in many countries by new nationalistic groups resentful of U.S. hegemony.

Despite the trend toward governmental authoritarianism, major new constituencies have entered the political and social process. Literacy has expanded significantly almost everywhere. University enrollments are exploding in most countries. The demand for newspapers, books, and journals is at unprecedented levels. And Latin America's intellectuals, particularly in the social sciences, are gaining a world audience for their theories and works. These crucial social trends are making possible mass political movements in Latin America.

Given these new political, social, and economic situations, the countries of Latin America and the Caribbean have entered much

more prominently than ever on the world scene as independent actors. Most of the major countries have projected their diplomacy outside the hemisphere in ways that were unthinkable a decade ago. Many countries have generated close ties with the countries of Europe, East and West, and with Asian capitals. A few governments have taken important roles in various international arenas in some of which there is the potential for conflict with the United States. Perhaps more importantly, within the region the Latin American states have begun to collaborate diplomatically in international collective bargaining.

What needs to be recognized is that the majority of Latin American and Caribbean states are preparing themselves to fulfill a global international role, and not only an intra-hemispheric one.

One point should by now be clear about Latin America: the region includes many units and sub-groups, each with different traits and diverse relations with the United States. Some of the major countries share characteristics and interests associated more with the nations of North America, Europe and Japan than with the countries of the Third or Fourth World. These nations are highly urbanized, literate and industrialized societies, often with per capita incomes which compare favorably with some European nations. Other countries are still locked into the vicious cycle of desperate poverty. They remain dependent in part on the policies followed by their more advanced neighbors, whose economic and political decisions affect them sharply. Many of the countries are at intermediate levels of economic and social development. Some countries are expanding the participation of their citizens in the making of national decisions; others have been closing off participation in various ways. Some countries in the region are still very closely linked to the United States by long-standing patterns of economic and political interaction, or by the more recent intermingling of populations which results from sustained migration; others are increasingly oriented toward extra-hemispheric involvements and exchanges.

Despite this variety, however, the countries of Latin America and the Caribbean share an interest in beneficial relations with the United States. None of these countries has as great an impact on the United States as it has on them. But taken together these nations comprise an area of substantial importance to the United States and one that is increasingly effective in autonomously defining its interests.

C. The United States Context

If, as has been suggested, Latin America is changing and evolving, so is the United States. It no longer dominates world economic and military affairs as it once did. In some measure, this reflects changes at home, but it also results from changes abroad, not only in Latin America, but elsewhere. In addition to the Soviet Union and China, Japan has emerged as a major industrial power, and a more cohesive Western Europe has become a major actor in world politics and economics. Finally, many Third World nations are now exercising an influence undreamed of a few years ago. This pattern of changing relationships and power structures can be expected to continue.

The experiences of the United States over the past decade, both at home and abroad, have contributed to the realization in this country that it is neither appropriate nor feasible for the United States to be policeman or tutor everywhere in the world. A "lower profile" has been adopted, and a new concept of the role and power of the United States in world affairs -- one founded on a more realistic assessment of national interests -- now characterizes U.S. foreign policy. The United States no longer exercises a veto power over the initiatives of its allies. The greater complications of mutuality, collaborative diplomacy, and flexible economic relationships will play a greater part in shaping future U.S. practices abroad.

Over the past 25 years, U.S. primacy in Western affairs has been achieved at high cost -- contributing to inflation, a war orientation in industrial development, political discord, and extensive secrecy in government. It is no small wonder then, given an atmosphere of primary concern for national security, that relations with the less powerful nations, and Latin America particularly, were shaped largely by that concern. The Alliance for Progress was in some measure an attempt to accommodate security considerations with concern for the domestic welfare of Latin American nations. The Alliance was a reflection of both generous intention and Cold War considerations.

Of late, the United States has faced a variety of challenges: unemployment, racial conflict, the long war in Vietnam, and a major crisis of governmental leadership -- all of which have seriously tested the coherence of the United States as a nation. This testing is likely to continue amidst the developing energy crisis, commodity shortages, and inflation now facing the world. All of this is bound to affect U.S. ways of thinking about the international community. What is most needed at this point is an international

policy that will not further strain the nation, but rather contribute to solving some of these problems. Significantly, the process of nation-building in the Latin American countries also depends on the same sort of international policy. Thus, a commonality of interest exists between the United States and Latin America at this juncture. The shared experience of working to solve problems which the United States and Latin America face can only serve to strengthen ties between the peoples of North and South America.

III. TOWARD A NEW FRAMEWORK FOR UNITED STATES POLICY

In suggesting that the United States alter its basic approach to Latin America, the Commission proposes no overarching new program, with a list of proposals to be ratified in hemispheric meetings and presented to Congress for funding. To do so would excite expectations which might not be fulfilled. Rather the Commission seeks a new framework for U.S. actions toward Latin America, one which can provide guidelines for dealing with specific political, economic, and cultural issues.

This policy framework has to reflect the facts that:

--Latin American countries are and will remain extremely diverse in their ideologies, political systems, economic systems, and levels of development.

--Latin American countries are playing and will continue to play increasingly active and independent roles in international organizations and other arenas of world politics.

--Non-hemispheric states will play increasingly important roles in Latin American affairs.

--The principal issues of U.S. policy toward Latin America will increasingly be issues which are not peculiar to U.S. - Latin American relations but rather involve global economic and political relationships.

Given these changed conditions, the Commission urges that new U.S. policies in specific areas of U.S. - Latin American relations reflect the following broad principles.

A. U.S. - Latin American Cooperation in the Global Arena

The United States should no longer assume, as it often has, an easy or permanent mutuality of interest between ourselves and the countries of Latin America and the Caribbean. Common interests do indeed exist, but they need to be nurtured. At the same time conflicts and points of tension cannot be ignored.

In taking a more active role in global politics, the Latin American countries have at their disposal significant material resources, rapidly growing economies, increasingly integrated national societies, and a tradition of diplomatic skill. In addition, they can capitalize upon their historically close relations with the United States. Yet their

identification, and the very real convergence of their interests with many of the countries of the Third World are also assets. The Latin American countries will thus be increasingly able to exercise leadership in international arenas which could in specific cases be either helpful or harmful to the United States. In pursuing this more active role, they obviously will act in their own self-interest.

For its part, the United States should act so that Latin American countries may find it in their interest to work with the United States in international bodies and to support a position compatible with that of the United States or, at least, not to take the lead in promoting opposition to the United States. The United States should, therefore, do what it can to adjust its policies in international arenas to take account of Latin American interests, and to attempt through a process of reciprocal support and mutual adjustment to develop effective working relations with the Latin American countries.

B. Sensitivity of General Policies to Latin American Interests

The issues of primary importance in U.S. - Latin American relations are, in many respects, the main issues of general concern to industrialized and less-industrialized nations. These include such problems as the terms and conditions of private investment, trade and tariff preferences, commodity supplies and prices, the oceans, human rights, and the transfer of technology. In these areas, the United States cannot, by and large, have one policy for Latin America and another policy for the rest of the world. These problems are global, and they require global policies and global solutions. They are also, nonetheless, particularly critical problems in U.S. - Latin American relations.

Policy measures which are drawn up in general terms may in practice have especially deleterious effects on Latin American countries. U.S. policy-makers should be sensitive to this danger and should avoid adopting general policies which, although not consciously designed to do so, impose particular burdens upon Latin American societies. The challenge here is to formulate policies which recognize the historic ties between the United States and Latin America and yet restructure those ties in terms of the increasingly complex global network of relations among industrialized and developing countries.

C. The Elimination of Paternalistic and Discriminatory Policies

In the past, the disparities in size and power between the United States and Latin American countries have led the United States to adopt "special" policies towards Latin America in an effort to affect the behavior of Latin American governments. Other legislative policies, although phrased in general terms, have been in fact directed primarily at Latin American countries. Some of these policies -- such as restrictions on military sales -- have been meant to be beneficial; others -- such as automatic sanctions in cases of expropriation -- have been designed to be retaliatory. Whatever the intention, in the changed circumstances of today, such policies can only be viewed as paternalistic and discriminatory.

Consequently, Congress and the Executive Branch should, at a minimum, repeal policies which apply special restrictions or penalties to Latin America or which seek to impose on Latin American countries a U.S. conception of what is good for them.

D. Respect for Human Rights

Respect for human rights has been and should continue to be a prime concern of the United States. All nations in the hemisphere not only share common ideals of freedom, but also subscribe to the Universal Declaration of Human Rights. This internationally accepted code of conduct specifically condemns genocide, other atrocities, and infringements of the basic rights of citizens. Such actions, when sanctioned by governments in Latin America or elsewhere, generally lead to discord and instability. Therefore, while recognizing and respecting diversity and national autonomy in the hemisphere, this Commission holds that it is clearly in the interests of the United States, acting within internationally prescribed legal bounds, to make clear its opposition to such acts of injustice because they are wrong and because they are destructive of the mutual trust and civility which are essential to the effective functioning of both national societies and the international system.

E. Cooperative Economic Relationships

In the past, broad U.S. policies toward Latin America, such as the Alliance for Progress, often reflected concern over possible threats to U.S. security from Latin America. At present and for the foreseeable future, Latin America poses no such threat. Military security, therefore, need not be the overriding goal and ordering principle for U.S. policy in Latin America. Economic issues instead will be the critical ones during the coming years.

Consequently, U.S. policy should give highest priority to working out mutually beneficial economic relationships between the United States and Latin America concerning investment, trade, the transfer of technology, and, particularly, U.S. access on fair terms to Latin American primary commodities and Latin American access on fair terms to U.S. markets for manufactured goods and commodities.

To implement these basic principles, the United States must alter many specific policies which no longer serve useful purposes. These suggestions are discussed in the following sections. In some cases, the Commission suggests departures from current trends; in other areas, it expresses its support for new initiatives -- some of which are already underway. The range of issues is wide: from political matters, such as Cuba and the Panama Canal; to economic issues, including threatened or applied coercive sanctions in economic disputes, as well as the critical question of human rights in the nations of the hemisphere, north and south.

The Commission believes these specific policy recommendations taken together would represent a start toward creating a more constructive U.S. approach toward Latin America. But these recommendations for modification of existing policies are not in themselves sufficient. Building a reasonable basis for cooperation with the countries of Latin America requires more: it requires translating the new approach into positive new initiatives on matters of concern to the hemisphere, and to the world as a whole. The United States must act in ways consistent with both the changed nature of inter-American relations and with the requirements of global interdependence.

IV. POLITICAL RELATIONSHIPS

A. Non-Intervention, Political Diversity and Human Rights

The time has passed when the United States could justify, even to its own citizenry, the practice of intervention in Latin America. Unilateral U.S. military intervention, such as occurred in the Dominican Republic in 1965, must not be repeated. Covert U.S. involvement in the domestic politics of Latin America, such as occurred more recently in Chile, is indefensible and should be ended. U.S. national interests are not served by such activities for they are inconsistent with a mutually respectful world order in which governments are responsible for their own actions and policies. Overt or covert intervention by other nations does not necessarily justify employment of such self-defeating practices by the United States.

Verbal commitments to stop interventionist practices are necessary but not sufficient. International pledges through treaties and multilateral declarations are also helpful but are unlikely to add much to national commitments. Further safeguards against inappropriate governmental activities should be built into U.S. governmental machinery. Strengthened Congressional participation in the foreign policy-making and review processes may help to assure that all agencies of the U.S. government adhere to expressed national policy.

Recommendation:

- 1. The United States should refrain from unilateral military interventions in Latin America, and covert U.S. interventions in the internal affairs of Latin American countries should be ended. The President and the Congress should ensure that all agencies of the U.S. government fully respect the sovereignty of the countries of Latin America.*

Latin American nations will continue in the coming years to possess widely varying political and economic systems. Although such diversity in the hemisphere may sometimes directly affect U.S. interests, these tendencies clearly

reflect the desire of nations of the hemisphere, north and south, to determine their own futures.

While the United States must reject both overt intervention and more subtle attempts to impose its own political preferences elsewhere, the United States should not be ambiguous about its own commitment to democratic institutions and liberties. But this does not mean that the U.S. government should withhold diplomatic recognition, use force, or apply economic sanctions on the basis of ideological affinities. It does mean that the tone of our relations and the broad range of our activities with countries should reflect the basic U.S. belief in the ideals of democratic society. The United States cannot afford to be reticent about its commitment to fundamental human values.

The United States should be clear, especially, about the obligations of all nations to protect the essential human rights set forth in the Universal Declaration of Human Rights. Those rights have been systematically and repeatedly violated in Latin America -- as well as elsewhere in the world.

The Commission has been particularly saddened by the recurring reports from responsible sources -- including church authorities, bar associations and other private groups -- of arbitrary arrests, torture and the disappearance of political prisoners, secret trials and secret imprisonments in Latin American countries of varying political colorations.

The Commission cannot judge the accuracy of individual reports, nor can it know the extent to which the various actions described represented official government policy as opposed to the excesses of ineffectively restrained police and security forces. However, the Commission condemns such activities. These shocking departures from established international norms are matters for deep concern, particularly in a hemisphere whose nations share the heritage of simultaneous birth in the spirit of revolution against foreign tyranny and with common dedication to basic ideals of human freedom and respect for the rights of individuals.

Agencies, such as the Inter-American Commission on Human Rights, which aim to investigate reported violations, deserve full support. While internationally endorsed fact-finding and publicity cannot by themselves prevent the violation of human rights, they can surely make it more uncomfortable for governments to ignore established standards.

All governments, including that of the U.S., should take into consideration the findings of such international commissions

and other evidences of systematic disregard for human rights in deciding on the substance and tone of bilateral and multilateral relations. Private and public expressions of disapproval of repressive practices are appropriate in specific cases. The doctrine of non-intervention does not bar the United States or other countries from reminding other member-states of the United Nations or Organization of American States (OAS) of their obligations with regard to human rights.

To the maximum extent possible, the U.S. government should try to assure that its programs do not aid or abet repressive regimes in carrying out inhumane activities. The Commission again stresses that ideological or political posturing or intervention should be avoided, but it is sure that consistent expressions of fundamental moral values are not wrong. Without them, the priorities attached to tangible interests may result in a slide toward moral blindness.

Finally, the United States should adopt -- and should encourage other nations of the hemisphere to adopt -- consistent and generous policies to welcome refugees who are victims of repressive activities. The right of political asylum was, until recently, universally respected in Latin America, but regrettably it is no longer. The United States should signal its intention to assist the afflicted within the limits of our national resources, whether the repression of which they are victims comes from the left or the right, from adversary regimes or allied governments. Expanding the U.S. emergency immigration program for political refugees would make that signal clear. The Commission does not believe, however, that there should be any sanctuary in the hemisphere for those who engage in hijackings or kidnappings.

Recommendations:

2. The United States should urge all states in the region to provide free access and essential guarantees to the Inter-American Commission on Human Rights. It should support efforts to strengthen the staff and enhance the prestige of the Commission, and should help assure that the Commission's reports are fully publicized and discussed in the OAS General Assembly.
3. The United States should press for the investigation of reported violations of human rights by

appropriate international commissions, and it should take the findings of those groups into account in deciding on the substance and tone of its bilateral and multilateral relations.

4. As a demonstration of its determination to do what it can to alleviate the distress caused by political repression, the United States should expand its emergency immigration program for political refugees, whether those refugees flee oppression of the left or right.

B. Cuba

For almost fifteen years, United States policy has attempted to isolate Cuba politically and economically. The stated U.S. objectives have been to thwart Cuba's export of revolution to other Latin American countries and to reduce Cuba's military ties with the Soviet Union. In addition to these explicit goals, there was, no doubt, an ideological desire to minimize the potential success of the Castro government and thereby to limit the appeal of Cuba's revolution as a development model.

Despite significant changes in Cuban, hemispheric, and global conditions, the United States has continued (with decreasing effect) to try to keep Cuba isolated within the hemisphere. Even though the Cuban government consolidated its power and modified some of its policies, and U.S. relations with the Soviet Union and China moved from Cold War to accommodation, Washington's Cuban policy continued essentially unchanged.

The Commission does not believe a continuation of the policy of isolation with regard to Cuba meaningfully advances any current U.S. interests. Politically, the United States runs the risk of becoming the country which is isolated as one Latin American country after another renews relations with Cuba. Economically, the U.S. embargo is ineffective; it may serve as much to deny American manufacturers a chance to compete for exports as it does to deprive the Cuban regime of supplies.

And if the U.S. policy were more effective, it would be inconsistent with the aim of creating a peaceful structure of international cooperation which all nations, regardless of ideology, have an incentive to maintain.

The objective of U.S. policy should be to facilitate Cuba's participation in a constructive pattern of inter-American and international relations, and to reduce Cuba's incentive to promote violent subversion elsewhere in the hemisphere or to make military facilities available to the Soviet Union. While there can be no guarantee of success, the Commission believes these objectives are more likely to be achieved by encouraging hemispheric trade relations and other contacts with Cuba than by isolating the island.

Whatever the case in the early 1960s, Cuba's material support of subversive movements in other Latin American countries has diminished in recent years. Its residual activities appear to be largely rhetorical; they do not now threaten the security of the United States nor of the Latin American countries. Establishing mutually beneficial relations with the countries of the hemisphere should provide further incentives to Cuba to maintain proper relations.

Preventing the possible expansion or potential use of Soviet military facilities in Cuba is, of course, a legitimate concern of the United States, but this is primarily a function of U.S. - Soviet relations, not U.S. - Cuban relations. To the extent that Cuba has the ability to diminish the level of Russia's military involvement there, it has little incentive to seek such a reduction until its relations with the United States improve.

The United States has acknowledged elsewhere in the world that it should not define the limits of ideological diversity for other nations. That principle should now be applied to Cuba. Latin Americans can and will assess for themselves the merits and disadvantages of the Cuban approach; the United States need not try to do this for them.

The United States can and should continue to express its strong opposition to authoritarian practices, in Cuba and elsewhere, which violate the essential human rights of individuals. As the Commission's previous statement on human rights urged, it is crucial that the United States find effective means for making its views influential, including the mobilization of informed international opinion, which may affect national policies. The U.S. policy of "economic denial" has had no such positive results; on the contrary, the embargo indiscriminately and adversely affects the lives of innocent Cuban men, women, and children. Far from weakening the present regime, the embargo (and U.S. attempts to limit travel, contacts, and exchanges with Cubans) makes it easier for the Cuban government to justify and prolong its tight control over the intellectual

and political activities of the Cuban people.

A further hope is that ending Cuba's isolation may contribute to an eventual reconciliation among the Cuban communities on the island and in the United States and other countries of the hemisphere.

Recommendation:

5. The United States should take the initiative in seeking a more normal relationship with Cuba. While emphasizing that progress toward improved relations requires positive action on both sides, the Commission urges that the United States act now to end the trade embargo.

This recommended U.S. initiative toward Cuba should be implemented in conjunction with the Latin American countries. At the earliest opportunity -- presumably the forthcoming Meeting of Foreign Ministers of the Organization of American States -- the United States should consult with other OAS members, indicating its willingness to support repeal of the measures against Cuba adopted at the Ninth Meeting of Consultation of Ministers of Foreign Affairs in July 1964. Assuming that the OAS resolutions are repealed, the U.S. government should then revoke Executive regulations restricting trade between the United States and Cuba and ought to act, within the President's discretionary authority, to suspend any legislative provisions which penalize third countries for trading with Cuba.

Regardless of progress or a Cuban response in other areas, the United States, taking into consideration its discussions with other OAS members, should move quickly to: (a) drop its restriction on travel to and from Cuba; (b) make evident its willingness to permit cultural, scientific, and educational exchanges on a non-official basis; and (c) make clear its willingness to improve cooperative arrangements with Cuba on practical matters of mutual concern, such as hijacking and weather watching, and to negotiate on such additional matters as may be indicated. Appropriate opportunities should be taken for dealing with Cuba informally within international organizations. The United States government should encourage and facilitate, not discourage,

non-official cultural exchanges and other forms of contact.

If and when Cuba's response permits, the Commission believes the President should be prepared to take other Executive actions and to seek whatever legislative changes may be necessary to facilitate commercial and cultural relations with Cuba. We should also be prepared to consider renewal of bilateral diplomatic relations as well as other steps to facilitate Cuba's integration into a constructive pattern of inter-American relationships.

When both Cuba and the United States have taken conciliatory steps toward constructive relations, it should be possible to resolve outstanding issues, such as securing compensation for expropriated U.S. properties, agreeing on the status of the U.S. base at Guantanamo, and fostering reconciliation among separated elements of the Cuban community.

C. Panama and the Panama Canal

The terms of the 1903 treaty between the United States and Panama are a constant source of friction between the two countries and increasingly have come to be viewed by other Latin Americans as symbolic of a distasteful bygone era in American diplomacy.

The treaty ceded perpetual control -- "as if it were sovereign" -- over five hundred square miles of Panamanian territory to the United States. It effectively made the Canal Zone a "state within a state," an American community administered by the U.S. government in the middle of Panama. In its present form, the Zone is viewed by Panamanians of all political persuasions as an undesired colonial enclave and an affront to Panama's national dignity.

In the ten-mile wide Zone, which bisects Panama, the United States maintains courts and police which enforce U.S. laws on Panamanians as well as North Americans. The United States, through a military governor, operates nearly all commercial enterprises in the Zone, controls large tracts of unused land and manages virtually all the deepwater port facilities in Panama as part of the maintenance and operation of the Canal. It maintains substantial military facilities in the Zone, including the U.S. Southern Command.

Given present day international realities, the Canal Zone is an anachronism. Panama is determined, by altering the 1903 treaty, to gain jurisdiction over its own territory and to obtain a greater share of the direct benefits from its most important national resource -- its geography. The Commission believes that reaching an equitable new agreement with Panama regarding the Canal would serve U.S. interests not only in Panama but throughout Latin America by removing one of the last vestiges of Big Stick diplomacy.

Since 1964, the United States has recognized the desirability of establishing a relationship which both protects important U.S. interests and is consistent with Panamanian sovereignty in a hemisphere of independent nations. On February 7, 1974, Secretary of State Kissinger committed the United States to the prompt negotiation of a new Canal treaty based on a Statement of Principles agreed to with the Panamanian Foreign Minister.

The Commission believes those principles accommodate the basic interests of both nations. Under them, the United States could continue to use the land and facilities necessary to operate the Canal, while Panama would receive jurisdiction over its territory, a more equitable share of the benefits produced by the Canal, and growing participation in the operation and defense of the Canal. A new treaty, of fixed duration, also would permit the facility to be enlarged as needed.

Perpetual U.S. control of the Canal and total jurisdiction over the territory of the Canal Zone is not necessary either to keep the facility operating or to protect other United States interests.

On the contrary, maintaining the status quo could mean greater jeopardy to U.S. interests, not only in Panama but also throughout the hemisphere. It is possible to conceive of a time when the United States might ultimately be required to defend its position in Panama by the use of force in the midst of a hostile population and in the face of universal condemnation by the region and the world.

The lack of international sympathy for maintaining the status quo has been demonstrated in a variety of forums, including the United Nations and the Organization of American States.

The United States and Panama share positive interests in the Canal, and the negotiation of a new treaty offers an opportunity to solidify that commonality of interest. The Canal is important economically and strategically but less and less so as changes occur in patterns of world commerce and in the technologies of shipping and weaponry. The utility of the

Canal in the future may well depend on expansion of its capacity, which can only be accomplished with Panama's cooperation.

The Commission realizes there are formidable obstacles to the negotiation and ratification by the Senate of a new treaty. The issue is an emotional one, often badly misunderstood in the United States; the U.S. government must do a better job than it has in the past of fostering a public awareness of the actual issues involved. And it must help Panamanian leaders to understand that confrontation tactics for domestic political purposes will not create a sympathetic understanding of Panama's position in the United States.

Recommendations

6. We strongly support the signing and ratification of a new Panama Canal treaty based on the Statement of Principles accepted by both countries on February 6, 1974. Any arrangement should in fairness take into account the interests of U.S. citizens in the Canal Zone.

7. Consistent with the Statement of Principles and in the interests of efficiency and economy, the President should now take appropriate measures to reduce U.S. government personnel and operations which are not clearly essential to the Canal's operation and defense. In this connection the United States Armed Forces Southern Command should be transferred from the Canal Zone to the continental United States.

D. Arms Transfers and Military Assistance

Until the mid-1960s the United States was the predominant supplier of military equipment and training to Latin America; it provided the region over \$2 billion in military assistance (or about 15 per cent of total aid to Latin America) in the period following World War II. This U.S. program initially was based on a view of the shared hemispheric need for security from the Soviet Union and its allies. Following the Cuban Revolution, the emphasis shifted to strengthening Latin American governments to deal with internal insurgencies.

The focus on internal subversion coincided with concern in the United States about needless diversion of resources from development. Beginning in the mid-1960s, the United States refused to sell modern weapons (including jet aircraft) to Latin American countries, and those restrictions as well as several others were embodied in Congressional legislation.*

Latin American governments, however, simply turned to European suppliers for equipment which was often more costly than that originally requested from the United States. Since 1967, 87 per cent of Latin American arms expenditures have been made outside the United States. The resulting situation satisfies no one: Latin American countries resent discriminatory United States restrictions, and some U.S. critics decry the decline in the U.S. share of the market, while others are disappointed that U.S. policy has failed to curb arms purchases.

The Commission has examined the case for the United States continuing to maintain a substantial military assistance program or military presence in Latin America. It has concluded that there are no significant internal security or extra-hemispheric military threats which warrant continuance of such programs. Nor should the United States attempt to regain a dominant position in the weapons market by actively promoting arms sales or by offering government credits on terms softer than a competitive, commercial basis. While the United States cannot unilaterally prevent sovereign nations from purchasing equipment they believe is required for their national defense, aggressively encouraging the purchase of U.S. arms by Latin American countries, as has occasionally been done in the past, cannot be justified. Doing so would counter no threat to U.S. security, nor would it provide the United States with significant economic benefits, for the Latin Americans may in any case prefer to avoid excessive dependence on a single supplier. Even if it tried, the United States could not regain the dominant position in the Latin American arms market which would give it leverage over intra-regional conflicts. More important, actively encouraging

*Sec. 504a (Conte Amendment) and Sec. 620s (Combined Symington-Conte Amendment) of the Foreign Assistance Act of 1971; and Sec. 1 (Reuss Amendment), Sec. 4 (Conte Amendment), Sec. 33 (Fulbright Amendment), and Sec. 35 (Symington-like Provision) of the Foreign Military Sales Act for FY1972 (FMSA).

Latin American states to purchase U.S. equipment would run counter to regional and global U.S. aims of limiting spending of scarce resources for arms. It could, moreover, upset local balances of power, thus potentially involving the United States in exacerbating regional disputes.

The United States does have a legitimate interest in maintaining constructive relations with Latin American military leaders, many of whom play principal political roles in their countries; making conventional military equipment and training facilities available on a non-discriminatory commercial basis may be part of what is required to maintain those relations. Legislative restrictions on arms transfers to Latin America have been ineffective in preventing arms purchases and have resulted in deep resentment among Latin American military and political leaders, who have viewed such stipulations as paternalistic. The restrictions are inconsistent with the attempts this Commission supports to make policies toward Latin America mutually respectful. It is also inappropriate to discriminate against Latin America when total military expenditures consume a much lower percentage of the GNP of that region than of most other parts of the world.

The massive levels of conventional arms purchases throughout the world, however, deserve serious international attention. U.S. firms alone sold billions of dollars worth of equipment last year. The Commission believes the United States should take the initiative in bringing together major supplier and consumer nations in efforts to establish wherever feasible -- on sub-regional, regional, or global levels -- internationally agreed limitations on the sale and purchase of conventional armaments.

Although no Latin American nation presently possesses nuclear weapons, at least two countries, Argentina and Brazil, have the potential to develop such weapons. The proliferation of nuclear arms capabilities could have a dangerous impact on regional power balances. Therefore, the United States should assure that its nuclear assistance agreements with Latin American countries include appropriate international safeguards. It should also seek ways to encourage adherence by all nuclear powers and all nations in the region to the 1967 Treaty for the Prohibition of Nuclear Weapons in Latin America (Treaty of Tlatelolco).

The United States also has an important interest in not associating or seeming to associate itself, through the maintenance of military programs, with security forces whose

repressive activities may involve the United States, willingly or not, in activities inconsistent with U.S. commitments to human rights and freedoms. The United States cannot assure in other countries respect for the human rights it values, but it can desist from providing training or equipment which would assist security forces found to be engaged in violating such rights.

Recommendations:

8. The United States should encourage and, where appropriate, participate in efforts to develop sub-regional, regional and global conventional arms limitation agreements among supplier and consumer nations.

9. The United States should terminate grant military materiel assistance programs in Latin America. The recently abolished Agency for International Development (AID) public safety program in Latin America, which provided equipment and training to police forces, should not be revived.

10. The United States should not actively encourage the purchase of arms by Latin American countries. However, legislative restrictions on arms transfers that discriminate against Latin America ought to be repealed. Conventional military equipment should be available to Latin American countries on a competitive, commercial and non-discriminatory basis -- the same as that governing sales to other friendly nations, except those engaging in military hostilities or whose security forces are found by appropriate international processes to be systematically violating human rights.

11. U.S. Military Assistance Advisory Groups in Latin America should be phased out and replaced by small inter-service liaison offices or joint commission delegations (possibly as part of Military Attache Offices), whose primary responsibilities would involve coordination of professional exchanges and training, rather than sales promotion or advisory functions.

E. Economic Sanctions

The unilateral imposition of coercive economic sanctions is inappropriate in the changing context of hemispheric and global relations. The threat or use of U.S. economic power to influence the internal processes or policies of Latin American countries is inconsistent with our efforts to build a just and peaceful international order, one in which differences among nations are resolved by negotiation rather than confrontation. The coercive use of U.S. economic power is not only deeply resented by Latin Americans, but also is generally counterproductive. Automatic sanctions exacerbate confrontations with Latin American nationalisms, damaging both the climate for negotiating reasonable settlements of the problems the sanctions were supposed to address, and the prospects of achieving the kind of constructive relationships that our national interests require in an era of growing interdependence.

1. Expropriation and Fisheries Disputes

Private foreign investment has been and will continue to be important to the development of Latin American countries. However, the investment process is not static; adjustments are sometimes required on the part of investors and host countries. Too often, when disputes over such adjustments have arisen between a Latin American government and an individual company, the U.S. Government has become embroiled in fruitless confrontations with Latin American governments. The threat and/or use (formal or informal) of economic sanctions* -- such as the Hickenlooper and Gonzalez Amendments which call for automatic aid cut-offs in unresolved expropriation disputes -- have rarely been helpful to the investor, and almost always have ensured that bilateral relations would be poisoned, often to the detriment of other U.S. investors.

* Provided for in Sec. 620(e) (1) of the Foreign Assistance Act of 1961, as Amended, known as the Hickenlooper Amendment; and sec. 21 and 22 of the Inter-American Development Bank Act of 1972, known as the Gonzalez Amendment. President Nixon's Policy Statement on Economic Assistance and Investment Security in Developing Nations issued January 19, 1972, also calls for similar economic sanctions.

The U.S. government cannot ignore the rights of its citizens under international law, but neither can it assume that U.S. corporate interests are homogenous nor that the national interest automatically coincides with the perceived interest of an individual firm. Coercive sanctions which escalate individual investment disputes into nationalistic confrontations between governments should be avoided. The resolution of investment disputes ought to be left primarily to host governments and companies, and where feasible, impartial dispute settlement procedures. However, where such processes fail or are unavailable and companies seek diplomatic recourse, our government should negotiate with flexibility and patience and not be forced -- through automatic sanctions -- into the position of staking its overall relations with other countries on the interests of individual investors.

Similarly, legislative amendments requiring automatic retaliatory sanctions* in disputes over fisheries have at times exacerbated nationalistic reactions and strained bilateral relations with Latin American coastal states. The Commission believes that international agreement on a new regime for the oceans is the best way to avoid future fisheries conflicts. However, pending negotiation of a new international agreement, the Commission supports efforts to minimize tensions between the United States and Latin American countries over fishing rights. A first step would be the elimination of the automatic sanctions cutting off economic aid and military sales in the event of seizure of U.S. fishing vessels in disputed waters. In these cases, as in cases of investment disputes, the threat of coercive sanctions is more likely to stiffen the host country's position rather than induce it to relax its demands.

* Provided for in Sec. 5 of the Fisherman's Protective Act of 1967, as Amended; Sec. 3 of the Naval Ship Loan Extension Act of 1967; Sec. 620 (e) (1) of the Foreign Assistance Act of 1961, as Amended; and Sec. 3 (b) of the Foreign Military Sales Act, as Amended.

Recommendation:

12. The United States should abandon the threat or application of unilateral measures of economic coercion in its relations with the countries of Latin America. Specifically, the Commission urges:

- (a) Repeal of the Hickenlooper and Gonzales Amendments and revocation of the January 1972 Presidential policy statement on expropriation.
- (b) Repeal of the amendments to the Foreign Assistance Act, Foreign Military Sales Act, and Ship Loan Act which provide for automatic economic sanctions in cases of fisheries disputes.*
- (c) Rejection by the United States of economic pressures or policies of economic denial to affect the internal processes of Latin American countries. Such measures should be considered only pursuant to appropriate resolutions of the United Nations or the Organization of American States.

2. The Inter-American Development Bank

The U.S. role in the decision making of the Inter-American Development Bank (IDB) is a specific issue, related to the use of economic sanctions, which troubles Latin Americans. The United States, which holds 38 per cent of the votes (as opposed to 24 per cent in the World Bank), can effectively veto proposed actions by the IDB's Fund for Special Operations where a two-thirds majority is required for approval. The use of this voting power to serve parochial U.S. political objectives contradicts the ideals of partnership supported by the United States and hampers the effectiveness with which the Bank pursues its accepted objective of promoting the economic and social development of Latin America.

* Mr. Heinz believes this Recommendation should be contingent upon agreements being reached regarding coastal states' rights and the historic rights of others regarding the utilization and conservation of migratory species.

In addition, U.S. efforts to make IDB actions reflect U.S. policy goals can have a negative effect on potential contributors to the Bank. Such contributors may fear that through participation in the Bank they will be associated with U.S. foreign policy objectives they do not share. Yet, it is in the interest of the United States and Latin America that other developed countries and the more prosperous Latin American nations make substantial financial contributions to the Bank. As these other nations share this financial burden, it is only appropriate that they should also share the responsibility of overseeing the policies and management of the Bank.

The Commission believes it is not necessary for the United States to retain its unilateral veto power in the IDB Fund for Special Operations. This could be accomplished by modification of the Bank's charter to permit the contributions of other nations to be counted in such a way as to dilute the U.S. share of the total votes below one-third without, however, any reduction in the level of U.S. contributions to the Bank. Alternatively, the United States could propose an amendment of the charter which would eliminate the requirement for a two-thirds majority.

Over the short term, the important factor is how the United States uses its voting power in the IDB rather than any change in its share of the votes. In the Commission's view, the United States could improve hemispheric relations significantly by treating the Inter-American Development Bank like a truly multilateral development institution and not as an instrument to achieve short-term U.S. foreign policy objectives.

Recommendations:

13. *The United States should propose a modification of the Inter-American Development Bank charter to encourage additional contributions by other nations in a manner which would permit dilution of the U.S. voting share below one-third, or alternatively, to eliminate the requirement for a two-thirds majority in the Fund for Special Operations. But such action must be accomplished in a manner which would not lower the level of U.S. contributions to the Bank.*

14. *The United States should assure that its actions in the Inter American Development Bank and other multilateral development institutions accord with the broad purposes of those institutions and are not taken primarily to serve narrow U.S. political or economic interests.*

F. The Organization of American States

The role of the OAS in inter-American relations is a subject of considerable debate. Founded in 1948 to provide an institutional structure for collective security in the region, the OAS today seeks to redefine its functions -- indeed its utility -- in the light of changing conditions.

Despite the criticisms and real shortcomings of the OAS, the Commission believes it plays a useful part in regional relations and has the potential to perform increasingly important functions of mutual benefit to the United States and the Latin American nations. The OAS provides a forum for inter-American consultation, particularly on matters which may ultimately be treated in global contexts. Whether policy decisions by regional leaders are taken within or outside the formal structure of the OAS, the institutional structure offers permanent mechanisms for staffing, implementing, and monitoring mutually agreed upon actions and programs. As noted earlier, the organization can help to promote greater respect for fundamental human rights by publicizing violations of such rights and discussing such cases at high political levels.

The OAS can play a particularly significant role in avoidance and mediation of intra-regional conflicts. The potential for such disputes could increase as Latin American nations interact more intensely and as these countries pursue their national interests in the international arena. The pressures of domestic politics may fan aggressive nationalisms, and regional power politics may also thrust Latin American nations into conflict with one another. All of us in the Americas share common interests in seeing that local conflicts do not broaden into the strategic arena, nor compel wasteful diversions of resources from nation-building to military purposes.

Consideration is now being given by the member governments to reforming the structure of the OAS in order to give it greater effectiveness in inter-American affairs. Structural

change will not, however, assure a strengthened OAS unless the member states are agreed on and committed to its purposes and determined to work together in furtherance of its objectives. The United States should be guided by the views of the Latin American States as to what role they expect the OAS to play in dealing with hemispheric matters.

Recommendations:

15. The United States should encourage the strengthening of the OAS conciliation and peacekeeping capacities.
16. With respect to the future role of the OAS -- including its structure, leadership and location -- , the United States should be guided primarily by Latin American initiatives and wishes.

V. CULTURAL RELATIONS

Many of the tensions and difficulties in U.S. relations with Latin America stem from real disparities in power and interests. Those disparities can narrow only gradually, and problems will no doubt persist in inter-American relations for some time. Yet, clearly, differences are magnified by poor communications and lack of understanding on both sides. Educational institutions, the media, and the general public in the United States pay insufficient attention to Latin America, and many of our political leaders have scant knowledge of the area.

Lack of understanding of Latin America in the United States exacerbates the tendency in the government to downplay Latin American considerations. "Latin American" policy often is made in contexts that have little to do with the region. That situation is likely to continue because of the underlying realities of foreign policy. Yet, better understanding of Latin America is bound to have favorable effects upon the quality and degree of attention accorded to Latin America by the United States.

Political, economic and military relations among states ordinarily deal with concrete problems. But, underlying these problems are intangible relationships that are general rather than particular, emotional rather than rational, and not necessarily related to current issues. These relationships are based upon deep-seated assumptions that one country maintains about another. Such a reading of a national or continental personality proceeds from the degree to which a foreign culture is understood. Language and customs, manners and attitudes, politics and public functions, as much as sports or advertising, are among many observable cultural symptoms which project a national identity.

Cultural exchanges between North and South America provide an avenue for improving understanding, but in their present form they are too scattered, limited, and elitist. If they are to reach wider levels of the population, and if they are to lead to an improved mutual understanding, valuable contacts established by individuals must be broadened, guided, and financed.

Nothing could be more opposed to the expansion and the deepening of such contacts than the present travel restrictions that inhibit free access among many nations of the hemisphere. Existing restrictions on entry into the United States do not

apply only to Latin Americans, but they are a particular irritant in United States - Latin American relations. Leading Latin American intellectuals have suffered inconvenience and embarrassment at the hands of U.S. consular and immigration officials rigidly implementing the law. To the extent that such regulations are based upon purely political grounds, these vestiges of the Cold War should be removed and every effort made to facilitate legitimate movement of persons.

But beyond such remedies, an effective cultural exchange program under present conditions can only be achieved through cooperative efforts between government and private cultural enterprise. Government sponsorship is needed to coordinate and provide funds for the execution of significant private cultural programs. The National Endowments for the Arts and the Humanities, charged with cultural responsibility within the United States, may serve as a suitable model for an international cultural exchange agency. A first step might be creation of a multinational board, financed by an allocation from the earnings of the Inter-American Development Bank, providing for exchanges between Latin America and the United States.

Such an entity could consider increases and improvements in exchange programs on various levels. It could also encourage formation of an hemispheric news exchange to combat paucity of information that presently marks United States coverage of Latin America and that also separates individual states within the region. A policy board could consider the establishment of specialized libraries of books, films and records, the organization and use of national archives, and the subsidization of translations of significant current and past classics. It might also call upon the richness of museums, to make available the benefits of the hemisphere's artistic and archeological wealth for all peoples, as well as to afford opportunities for artists and intellectuals to meet in inter-American conferences designed for mutual professional and creative enrichment.

Recommendations:

17. U.S. immigration legislation should be reviewed systematically with the aim of eliminating restrictions barring travel and migration on purely political grounds. The Commission urges that the President promptly seek Congressional approval for amendments designed to eliminate these restrictions. In the

meantime, we urge the President to instruct all relevant U.S. agencies to interpret and apply existing legislation in the light of changed circumstances and priorities.

18. The United States should propose establishment of an Inter-American Endowment for Cultural Exchange, with funding from a percentage of the earnings of the Inter-American Development Bank. The mandate of such an entity should be broadly defined and its functioning should remain free from the pressures of government agencies in any of the participating countries. Its sole purpose should be to utilize the talents and capacities of institutions and individuals toward a better and broader understanding among the nations of the Americas.

19. The U.S. government should provide increased support for Latin American Area Studies at all levels of the educational system.

VI. ECONOMIC RELATIONS

The United States and the nations of Latin America share a vital interest in helping to resolve the serious economic problems facing the world today. A new set of rules is required to govern the exchange of goods and services among nations so that all countries -- developed and developing -- can realistically expect to benefit. We believe actions in this hemisphere can contribute significantly to that goal. Rather than recommending a "special relationship" based on a spirit of favoritism or exclusion, we recommend a special effort to act in the region in ways that build toward, and support more efficient and equitable global arrangements.

The Commission recognizes that solutions to many of the economic problems and dilemmas of the present day will not be forthcoming unless there are concerted world efforts to solve them. The issues are complex and cannot be resolved solely within a hemispheric context. This Commission has not attempted to prescribe universal solutions; what it has tried to do is suggest some ways in which the United States may work cooperatively with the other nations of the Americas to advance their common interests.

Three sets of issues dominate the agenda of inter-American economic relationships: access to markets and resources, capital flows, and the transfer of technology. U.S. initiatives in these three areas can lead to more productive, mutually beneficial relations. The basic approach we recommend would restructure market relations in the mutual interest of all nations of the hemisphere; it would support and reinforce a renewed respect for national sovereignty in the political sphere as well.

A. Access to Markets

1. Tariff Preferences

The Commission urges the United States to fulfill its pledge to grant generalized preferences for imports of manufactures from the developing nations. Favorable access to the largest market in the world would be of special importance to many Latin American countries. The product per capita in the region now exceeds \$600 a year, a gain of

some 40 per cent since the beginning of the 1960s. The composition of the region's economic output has changed: agriculture now accounts for less than 15 per cent of total production, while manufacturing comprises almost 25 per cent. More importantly, the manufacturing sector has been growing at an increasingly rapid rate, 9.2 per cent, for example, in 1972. The most industrialized nations of the region -- Argentina, Brazil, Colombia, Mexico, -- have an obvious interest in securing greater access to the markets of the developed world for their manufactured goods. These nations have moved beyond import substitution and now look outward to the rest of the world. How the United States responds to their desire for market access will have an important effect on their economic policies and their commitment to economic and political cooperation. Our responsiveness also will have a significant impact on the policies of other countries -- Peru, Chile, and Venezuela -- whose industrial capacities are growing.

The Commission believes it is in the interest of the United States to encourage freer trade in manufactures and commodities. More liberal trade arrangements are likely to result in increased U.S. sales abroad, as well as lower-priced imports. The latter, by helping to bring about a more efficient domestic allocation of resources, will be an important weapon in the battle against inflation. Temporary dislocations and hardships, although inevitably painful and requiring generous transitional assistance for certain segments of the economy, should not deter the United States from policies which are needed to bring about more efficient national and global economic structures.

While a universal, non-discriminatory, most favored nation framework for global trade relations is essential, the Commission favors generalized tariff preferences for developing countries as a means to support their development. The Trade Reform Act of 1973, currently being considered by Congress, provides such preferences, but they would be of very limited benefit to Latin America. The proposed legislation excludes from the list of eligible products many of the manufactures in which Latin America might possess comparative advantage. The limitation on products admitted with preference to \$25 million or 50 per cent of U.S. imports whichever is less, restricts potential economies of scale and the likelihood that new investment will be stimulated. In fact, the two restrictions -- on type of products admitted

and dollar volume -- would deny preferences to about 80 per cent of dutiable exports from Latin America and to some 90 per cent of total exports. Among Latin American countries, only Mexico stands to gain much from the trade bill as it is currently written.

The Commission feels that the preference scheme in the proposed trade bill should be extended to provide greater benefit to Latin America without serious adverse domestic repercussions. The size, and growth, of the United States market can define realistic limitations that are both more generous and more economically sound. The upcoming multilateral tariff negotiations in the GATT will also offer opportunities to cooperate with Latin America on additional steps to liberalize trade relations.

Recommendations:

20. *The United States should enact a generalized scheme of tariff preferences for developing countries. However, both the list of products to be admitted and the limitations on dollar volume should be drawn with a view to providing increased benefits to Latin America.*

21. *The United States should cooperate with Latin American nations in the forthcoming multilateral tariff negotiations to achieve tariff reductions on products which would be of mutual benefit.*

2. Export Subsidies and Countervailing Duties

A second and related element in hemisphere trade relations is the matter of export subsidies and countervailing duties. The temporary use of export subsidies by developing countries whose overvalued exchange rates are disadvantageous for their exports can help ease the transition from the high tariff structures found in most of those countries to less protectionist systems. Because exchange rates are expected to move closer to equilibrium over time, the use of export subsidies should be a temporary phenomenon with their phase-out linked to adoption of more realistic exchange rates.

Current GATT rules relating to the use of such subsidies should be reviewed and revised to better regulate existing practices.

Threats to quickly impose countervailing duties in response to subsidized exports have been a source of tension between the United States and several Latin American countries. The proposed trade bill provides for a waiver of a countervailing duty under certain conditions, thus permitting a more flexible response to export subsidies. The special circumstances of developing nations could be taken into account in determining whether and to what degree countervailing duties would be imposed. While the waiver provision is desirable, it is not a sufficient or long-term solution to the subsidy-countervailing duty problem. The United States should take the lead in negotiating new international rules that more realistically define the magnitude and conditions under which temporary subsidies by developing countries are permissible. If such rules are not developed, the issue will give rise to increasing frictions between the industrialized and the developing nations generally, and with Latin America especially, as the developing nations seek to extend their exports of manufactures. Negotiation of fair and enforceable regulations on export subsidies that are related to the level of economic development, the structure of protection, and size of exports is in the interest of all nations. Once negotiated, it would be the obligation of all nations -- developing and developed -- to observe those rules.

Recommendation:

22. The waiver provision on countervailing duties should be included in the Trade Reform Act. The Commission further recommends that the United States, in concert with other nations, begin to review and negotiate new and more appropriate international rules to govern the temporary use of export subsidies by developing nations.

3. Domestic Adjustment Assistance

More liberal import policies will impose some temporary hardships on certain domestic sectors, affecting individual

firms and workers. These short-run dislocations must be eased if foreign policy aims are to be reconciled with domestic obligations. Present adjustment assistance provisions are hedged with conditions that render them inadequate. They need to be strengthened by increasing and lengthening the benefits, and by providing more effective training for displaced workers so they can fill desirable new jobs. Adjustment assistance should be selective and limited in duration so as not to become a permanent subsidy. Its objective should be to improve the allocation of resources by aiding the transfer of workers and firms from un-economic activities to economic enterprises.

Recommendation:

23. The U.S. government should determine which segments of the domestic economy will be disrupted by more liberal trade policies, including tariff preferences, and should develop a selective, but generous program of adjustment assistance. This assistance should be integrated with national and local economic policy plans as well as with other measures directed toward more efficient domestic allocation of resources.

4. Commodity Arrangements

The previous discussion focused primarily upon trade in manufactures; trade in foodstuffs and raw materials poses equally vexing problems, but also provides constructive opportunities. Of late, many Latin American countries have benefited from the rapid rises in commodity prices. Although the short-term prognosis for some commodities is one of global scarcity and consequent high prices, the long-term outlook is less certain. Prices may stay high, or increased supply may exceed demand, depressing prices again as in the 1950s.

In no other area is the mutuality of interest between the Americas so clearly demonstrated: Latin American countries want insurance against oversupply of raw materials and consequent low prices; North Americans want protection against shortages and rapidly inflating prices. Both have an interest in maintaining adequate commodity flows at reasonable prices. The obstacles to harmonious trade in commodities, however, are obvious: definitions

of what is "adequate" and what is "reasonable" may differ, and a trading nation seldom wants to stabilize prices and quantities when the terms of trade are running in its favor. The commodity problem provides a major opportunity for hemispheric initiatives toward world cooperation.

The United States and Latin America together can, in the first instance, assure that information concerning projected demands and supplies is shared among individual countries so that internal policies are not developed in isolation. Coordinated either through the OAS or the Inter-American Development Bank, such efforts can help to perfect and anticipate the operations of the market. Because this information is in itself insufficient to guarantee against the risk of excessive production or to prevent large, but temporary, price fluctuations, additional mechanisms are required.

The commodity agreement approach sometimes favored in the past cannot by itself provide a solution. No one technique is likely to be sufficient to deal with the complexities of commodity markets. A variety of approaches may be more promising. One possibility the United States and Latin American nations might consider is compensatory finance arrangements: for example, differences between actual and stipulated prices for a range of commodities could be partially offset by monetary receipts from, or payment into, a hemispheric facility managed by the IDB. If prices declined below an agreed level, which itself would change in response to shifting demand and supply, producing countries would have a claim to transitional financial assistance. If prices exceeded a maximum, owing to inadequate supplies, consuming countries would have the full inflationary impact diluted by repayments from this facility. This arrangement could be used in conjunction with the more modest finance now available from the International Monetary Fund, and could be extended to global dimensions.

As an alternative or complementary approach, long-term supply contracts could provide another mechanism to help assure adequate supplies and reasonably stable prices. The United States might explore means to underwrite or otherwise encourage long-term contracts for the purchase of selected commodities. Such efforts at price and quantity stabilization would serve U.S. interests by offering Latin American countries an incentive to provide adequate and accessible supplies. They would improve the Latin American countries' prospects for continuous, favorable export receipts, while reducing the fear of sudden balance of payments difficulties brought on by declining commodity prices.

However the actual arrangements are carried through, they

must remain compatible with the realities of global economic interdependence. It is not in the interest of the United States to encourage the world to shatter into exclusionary bilateral agreements reminiscent of the 1930s. Rather, the United States should work to expand commodity production to satisfy world demand, and to remove monopoly elements from commodity, manufactures, and technology markets.

Recommendations:

24. The United States should encourage the establishment of a regional system for the exchange of information on commodity supply and demand projections.

25. The United States government should examine means to limit and offset the effects of wide fluctuations in supply, demand and prices of selected commodities. Alternatives which should be considered include compensatory finance arrangements, long-term supply contracts and commodity agreements. Such arrangements could be initiated on a regional basis, but should be consistent with Western Hemisphere interests in expanding total global production and maintaining orderly and equitable global trading arrangements.

B. Capital Flows

1. Public Capital

Extensive bilateral concessional assistance from the United States to Latin America is largely a thing of the past. Yet some groups of the population, and some countries within Latin America and the Caribbean continue to require concessional aid. Annual per capita income in several countries is still below \$300. What assistance is available, in both bilateral and multilateral forms, should be targeted to yield the largest benefits. The United States in cooperation with the countries involved, should focus its assistance on projects designed to better the living conditions of Latin America's poorest citizens. That means attention to specific problems -- low productivity agriculture and inadequate food

supply, infant mortality, education and population growth -- and to specific regions and countries -- Bolivia, Paraguay, parts of Central America, and much of the Caribbean.

The Commission believes the United States should cooperate with Latin American nations and multilateral development institutions in programs to narrow the disparity of incomes and to help the poorest in the region. Such undertakings could perhaps serve as a model for joint efforts by developed and developing nations to ameliorate desperate poverty in the world. Poverty in its most severe forms is self-regenerating. It makes large families an economic necessity and keeps children from attending school because their incomes are necessary to mere family survival. It limits techniques in the agricultural sector to the most traditional. It means malnutrition and disease, and an inability to realize one's economic potential.

Eradication of poverty does not lend itself to simple panaceas directed only at certain symptoms. Family planning, however necessary, will prove inadequate in the absence of expanded economic opportunities and improved incomes. Modern inputs in the agricultural sector in the absence of better distribution of income will not be sufficient. Low-income housing without more jobs will be but a temporary expedient. Increased access to education without the economic capacity to finance attendance offers little benefit to the poor.

While the problem is difficult, much can be accomplished if there is continuing commitment and attack on many fronts. The United States should play a leading role in efforts to eliminate poverty, not only because it may promote political stability in the long-run, but because the United States, along with the more prosperous Latin Americans cannot help but be affected -- morally and practically -- by the wasteful and inhumane consequences of islands of poverty in this otherwise dynamic and rapidly developing region.

Limited, but effectively utilized funds provided through the Agency for International Development and the Inter-American Foundation can have significant impact on the processes of economic and social development. They can be augmented from other sources. Multilateral lending agencies themselves have begun to concentrate their funds on the poorer nations and regions. Wealthier Latin American countries can contribute. Venezuela has already made large contributions to the World Bank and the Inter-American Development Bank conditional on the funds being used to finance projects in the poorer countries. While few other nations are so advantaged, many can afford to do without the IDB's "soft" loan resources (the Fund for Special Operations)

and thus make at least some additional sums available for their poorer neighbors. These varied resources can permit significant accomplishments, especially if objectives are limited and defined clearly. It is important that the United States exercise its leadership by fulfilling its own commitments to the IDB and World Bank. At the present time, the United States is in arrears on its commitments to the IDB's Fund for Special Operations by \$500 million, and on its commitments to the World Bank's International Development Association by \$320 million. United States calls for cooperative hemispheric efforts will ring hollow if the United States does not live up to its own pledges.

Recommendations:

26. *The United States should target its bilateral assistance to the poorer countries in Latin America and the Caribbean, and in cooperation with the countries concerned, to projects within countries which will better the lot of the poorest segments of the population. The United States should endorse attempts by multilateral lending agencies to apply similar criteria in their programs.*

27. *The United States should fulfill its own commitments to the Inter-American Development Bank and to the World Bank, and should encourage the wealthier nations of Latin America to make more of their resources available for development assistance in the region.*

2. Foreign Private Investment

Foreign private direct investment, by U.S. or other international investors, has made and can continue to make important contributions to Latin American development. Yet foreign investment, especially in its direct equity form, is often an emotional issue to the people of both Americas. It is an issue loaded with suspicions and misunderstandings. North American investors are concerned about instances of capricious treatment from Latin American governments, in disregard of written agreements, while

many Latin Americans are concerned that powerful multinational companies, unwilling to subordinate their global business interests to national economic aspirations, will exploit them. But times are changing and so are the terms of foreign investment.

Latin American countries have become more self-confident and technically more competent in their dealings with the multinational corporations. Competition among investors from the United States, Europe and Japan enables the Latin American countries to strike better bargains. More and more natural resource exploration and exploitation is conducted under national policy direction and with joint participation between the host country and the foreign firm. Licensing arrangements and joint ventures are more common, providing a framework for local investors to participate in eventual profits. Investors from many different countries have combined, for example, in the Atlantic Community Development Group for Latin America (ADELA) to take minority positions in joint ventures with local private and public capital to start new industries. Investment that simultaneously brings benefits to the host country in the form of more jobs, better production techniques, increased opportunities for exports, and ultimate domestic ownership, as well as yielding returns to the foreign investors, is becoming more prevalent. Correspondingly, the potential for direct and irreconcilable conflicts of interest is diminished as foreign firms see the advantages of the large and growing Latin American market and recognize the desirability of responding constructively to host country concerns.

Inevitably there is a tension in the foreign investment process between the investor's need to remit earnings home and the host government's need to retain the largest possible gains internally. What makes the conflict ultimately resolvable to the mutual advantage of all concerned is the increased output of goods and services made possible by the investment and the continuing need for capital and technology by the host Latin American countries.

Host country demands for renegotiation of initial terms and conditions which may have initially attracted particular foreign investments have become commonplace occurrences in Latin America. Such modifications can take various forms, including increased taxation of foreign profits, or requests for equity participation. While many renegotiations have been concluded successfully, others -- most often in the area of natural resources -- have precipitated sharp disputes between U.S. companies and Latin American governments. They have resulted at times in

U.S. government involvement to influence a settlement.

The Commission believes that relationships between United States investors and Latin American countries are best conducted on a direct basis, with minimal U.S. government involvement. The policy of the U.S. government should be to encourage the probability of mutually advantageous, private solutions. Arbitrary and unilateral disrespect of contractual obligations by any government must not be condoned, but at the same time, the U.S. should avoid actions which escalate private disputes to the level of governmental confrontations. That is one reason for the Commission's previously stated recommendation against the threat or use of automatic sanctions in expropriation disputes.

The United States should remain receptive to Latin American attempts to develop codes of conduct applicable to foreign investors. As multinational firms, whose economic size and power may exceed that of host countries, play more of a role in Latin America, there is understandable concern on the part of host countries that they be able to deal effectively with such enterprises. There is an equal interest on the part of the U.S. government that these vast corporations conduct themselves in accord with the U.S. national interest.

Serious discussion to define the rights and responsibilities of foreign investors and governments is needed. It is not enough to assert that "international law" protects foreign investors, nor can we realistically urge U.S. or other foreign companies to accept without any diplomatic recourse, the application of host country laws and practices to their companies when those practices contradict prevailing international norms. The availability of impartial and generally accepted mechanisms for effective fact-finding and arbitration, however, could eliminate the need for diplomatic involvement in investment disputes. The establishment of such mechanisms, whether under global or regional auspices, would go a long way toward minimizing the damage investment disputes often do to inter-American relations. A structure of mutual expectations could be established which would guide the dealings between U.S. companies and Latin American governments, without the unnecessary and sometimes counterproductive involvement of the U.S. government.

Recommendation:

28. *The United States should collaborate with the Latin American nations in the development of codes*

of conduct defining rights and responsibilities of foreign investors and governments. Together, the United States and Latin America should work to develop impartial fact-finding mechanisms and utilize impartial dispute settlement procedures to help in the resolution of investment disputes.

3. OPIC Guarantees

The Overseas Private Investment Corporation (OPIC) guarantee programs in Latin America could be modified appropriately to further reduce governmental involvement in private investment matters. Large investors can assess and assume risks on their own. For them the insurance provided by OPIC is largely unnecessary, and where used, it may be questioned whether the investment should have been undertaken initially. Moreover, claims under a guarantee can bring the U.S. government more directly into dispute with the host country.

OPIC guarantees might usefully be applied, however, where mutual policy objectives are agreed upon and there is little likelihood of contention. Such guarantees could encourage medium and small firms with needed skills and capital but little foreign experience to take the risk of investing abroad. They could also assist projects approved by host governments that are intended to have a favorable impact upon the poorer segments of the population. By attracting and helping to direct additional resources to the most needful regions and sectors, such guarantees can supplement the policy initiatives previously recommended.

Recommendation:

29. The Overseas Private Investment Corporation guarantee programs in Latin America should be modified to emphasize primarily medium-and smaller-size firms and projects intended to have a favorable impact upon the poor.

4. Capital Markets

The present uncertainties in the world economy offer another opportunity for constructive U.S. government initiatives. In the

last few years many of the Latin American countries have had unparalleled access to the capital markets of the developed countries, and in particular, the Euro-dollar market. Such an inflow has permitted rapid growth in imports of capital goods and intermediate inputs without balance of payments strains. However, new deficits in the developed countries brought on by the much higher cost of petroleum have made access to their capital markets more difficult. The development prospects of many Latin American countries, particularly oil importers, will be dealt a severe blow if they are unable to attract continuing inflows of money capital. For some it would mean curtailing present rates of growth and a turn again toward inward-looking development; for others it would pose serious problems of timely debt repayment and possible default.

While the amount of public funds to meet these requirements is obviously inadequate and unlikely to materialize, the United States government can help to assure that international facilities used for the transfer of oil revenue dollars give due consideration to the needs of the developing countries. It can likewise explore the possibility of attracting private U.S. capital to participate jointly in certain bilateral and multi-lateral public projects, thereby expanding the total capital inflow available. The United States should also be prepared to consult with other creditor nations to try to assure that Latin American development efforts are not impeded by heavy debt burdens acquired when the global economic outlook appeared more favorable.

Recommendation:

30. The United States should collaborate with the countries of Latin America to assure that facilities used for the international transfer of oil revenue dollars give appropriate weight to the requirements of the developing countries.

C. Transfer of Science and Technology

Developing countries have become aware of the critical importance of scientific knowledge, and its effective application, to economic growth. Capital accumulation, foreign exchange availability, and elimination of other conventional constraints are

insufficient in themselves to assure high, and self-sustaining rates of economic progress. These measures can foster per capita income increases only in conjunction with the productivity increases made possible by more efficient technology.

It is no accident, then, that the transfer of technology appears near the top of every Latin American list of current issues in hemispheric relationships. Latin Americans are keenly aware of the extent to which they import much of their technology -- in form of machines and managerial techniques -- from the United States and other industrial nations. They are concerned about this dependence, and what it implies for continuing foreign participation in their economies, particularly if equity investment becomes the only medium for such transfer.

The issue is complex, for unlike commodity trade in which transfer can be effected by a simple exchange of goods, science and technology are not always embodied in a simple physical form. Such activities reach down into the cultural matrix of societies. And short-term policies that seem to work may be inimical to longer-term solutions.

The United States, as the world's foremost producer of industrial technology, can enhance Latin America's development prospects by encouraging the flow of technology southward. Our concern for a stable world and hemispheric political order also suggests that we facilitate development of scientific and technological bases within the Latin American countries. For only with an ultimately sophisticated technological infrastructure can the process of scientific application be internalized.

The United States can take measures to assist in both dimensions of the transfer process. Development of scientific and technological capacity is time consuming and costly. The U.S. should lend its official efforts to bolster Latin American capabilities, avoiding wasteful duplication of energies and resources within the region. For a long time now such a role, as distinct from manufacturing and marketing techniques on a commercial basis, has been left almost exclusively to private foundations and individual scholars.

Technology transfer takes many forms. The institutional and organizational ability to use it is as important as access to the technology itself. The Commission believes a United States-based public foundation acting in concert with Latin American counterparts to facilitate their access to scientific and technological activities in the United States could make a useful contribution to this process. It could help to match Latin American needs with scientific and technological capabilities in the U.S. -- in universities, government laboratories, research institutes, and private firms. The corresponding

Latin American groups, some perhaps involving more than single countries where national units are small, would be locally funded and would coordinate their own research and development priorities.

Initiative in such an arrangement would rest with the Latin Americans and be shaped by their priorities. Such a facility could usefully supplement existing international agencies and build upon the long and successful hemispheric intellectual interchange under private auspices.

Recommendation:

31. *The United States should assist the development of scientific and technological capabilities within the Latin American countries. To support this process, we recommend establishment of a publicly-funded foundation to cooperate with counterpart Latin American institutions.*

The Commission would like to point to one specific area where expanded cooperative research programs are greatly needed. The recent Law of the Sea Conference has made very apparent mankind's insufficient knowledge about the location and magnitude of marine resources. More intensive programs of marine research are needed and would facilitate agreement on a new international code regulating exploitation of marine resources. In particular, the Latin American nations have much to gain. We therefore encourage mutual research with Latin America to improve and share our knowledge of the seas.

Recommendation:

32. *The Commission recommends that the United States undertake cooperative research in marine science. Consideration should be given to the establishment of international or regional Marine Research Centers in Latin America and the Caribbean in which scientists from member countries could jointly undertake marine research projects and studies, thereby strengthening local research and scientific capabilities.*

This assistance speaks primarily to the long run. For the present, capital is, and will remain for some time, relatively scarce in many Latin American countries. Basic research is extremely costly and produces tangible returns only after long periods of time. Resources invested in training high-level manpower subtract from those available for assuring mass literacy and educational access. What is of more immediate significance is freer availability of the technology of the more advanced nations that can be utilized without duplication of the steps involved in its initial development. The Japanese experience may serve as a useful model, with its simultaneous reliance upon foreign patents and licenses and emphasis upon adaptation to local conditions.

The Commission recognizes that most of the United States technology available for immediate application resides in private hands; most transfers correspondingly result from private decisions of corporations, typically in the form of equity investment. There is a legally recognized monopoly through the patent system that is bestowed upon possessors of technology; and firms legitimately seek to protect and defend against imitation and competition even in the absence of such formal authority.

In these circumstances the potential for governmental direction or regulation of the transfer process is circumscribed. And the market place, because of the monopoly elements inevitably present, will not always yield equitable solutions. This is the crux of the matter: for Latin American countries often are persuaded that they are paying higher prices and receiving inferior quality. Such a sense of discrimination and abuse contradict the tenor of the United States approach to hemispheric relations we recommend.

Constructive measures can be undertaken. The market for technology might be improved if better information about terms and prices of technology were recorded and shared. The technical competence of Latin American countries in dealing with technology transfer is growing; most nations now routinely collect information on licensing agreements. The United States should cooperate to assure fuller dissemination of that information without violating the confidentiality of specific contracts. This information, collated from hemispheric countries and coordinated through some regional organization, could do much to eliminate foundless charges and identify true distortions. It also would foster competition among the developed countries themselves, and in that way permit the evolution of a more

efficient market.

Internally within the United States, efforts can be made to encourage medium-sized and smaller firms to make their technology available for sale. They, too, lack information concerning the opportunities available to them in Latin America. By restructuring OPIC guarantees, as previously recommended, and including a clearing house function among the activities of the aforementioned public foundation, more diversified participation by American business may well be forthcoming.

Recommendation:

33. *The U.S. government should cooperate with Latin American countries to collate and disseminate information relating to the terms of licensing agreements, royalty payments, etc. Similarly one function of the new public science foundation recommended previously should be to provide a clearing house of information on technological services potentially available from middle and small-sized firms in the United States.*

These measures taken together will not make the issue disappear. The very nature of the transfer of technology precludes such optimistic identity of national interests. But these policies can help lead to elimination of the dangers of technological dependence. Expeditious implementation can make clear our appreciation of the Latin American position and our commitment to act within the realm of the possible to resolve the problems surrounding the transfer process.

VII. DIRECTIONS FOR THE FUTURE

Our conclusion is clear: the time is ripe for a new U.S. approach to inter-American relations. Neither old rhetoric nor new slogans will suffice. A fundamental shift in the premises underlying U.S. policies is required.

We must base our actions in the future on the recognition that the countries of Latin America and the Caribbean are not our "sphere of influence", to be insulated from extra-hemispheric relationships. Nor are they marginal to international politics. Rather, they are increasingly active participants on the world scene, nations whose friendship and cooperation are of growing value as we confront the realities of global interdependence.

We must also recognize that the nations of the region are not homogeneous. They are diverse, with varying goals and characteristics, at different levels of development. They are not, and need not be, replicas of our country, nor do they require our tutelage. They are sovereign nations, able and willing to act independently, but whose interests in forging constructive solutions to regional problems will often coincide with ours.

Our mutual concerns in the hemisphere center not on military security, but rather on the critical issues of economic and political security in an uncertain world. The growth of our economies, the well-being of our citizens, the coherence of our societies, and the protection of our individual liberties -- these are the goals we share, and which we now recognize cannot be attained in isolation from -- or at the expense of -- our neighbors.

By understanding today's Latin America as it is, and by making clear to Latin Americans how our conceptions have evolved, we in this country can lay the foundation for a new era in U.S. - Latin American relations.

The approach we suggest is based on the proposition that the United States cannot neglect, exploit or patronize its hemispheric neighbors. It is based, too, on the proposition that justice and decency, not disparities of power and wealth, should be the guiding forces in hemispheric relations. Both self-interest and our fundamental values require that we nurture our common interests and historic ties in the Americas, and that we cooperate in helping to build a more equitable and mutually beneficial structure of international relations.

The approach we advocate looks toward a future in which the peoples of the Americas will work together in confronting regional

and world problems, -- maintaining peace, relieving poverty, eliminating hunger, and respecting human rights. It looks toward a future in which we will join together to harness human and material energies, to develop and conserve human and natural resources, to share the richness of our diverse cultures. Only with such an effort can all Americans, from both North and South, look forward to decent and satisfying lives.

