FÓRUM DAS AMÉRICAS CONFERÊNCIA DE MONTO MO

Monaco, September 29 - 30, 1997.

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Minutes of the Monaco Conference

On September 29 and September 30, 1997 political leaders, businessmen, jurists, economists, diplomats and members of the press met at Monaco's Center for International Meetings. The event was organized by the Forum of the Americas and sponsored by the Principality of Monaco. The theme of the event was "Investments in Brazil: Cooperation with and Repercussion throughout Mercosur". The participants analyzed and discussed issues related to the role being played by Brazil and Mercosur within the global economy. Specific attention was drawn to this market's investment opportunities, the interaction of the economic reality and other experiences related to regional integration.

These records register the most important aspects analyzed during the event, as follows:

1) The consolidation and expansion of Mercosur through agreements of the "4+1" kind has transformed it into a significant economic, political and trade block within the global scenario. The importance

of Mercosur is highlighted by the fact that this is a market with 220 million consumers and a US\$ 1.4 trillion of GDP.

- 2) Brazil currently offers highly attractive investment conditions generated by the political and economic stability, by the implementation of a rigid program to cut public spending, and by privatization. In addition, the government is conducting a far-reaching reform of the state. So far, investment opportunities have had repercussions only throughout Mercosur.
- 3) A stable democracy and transparent political practices will contribute to ensure the safety of business ventures in the region.
- 4) Considerable investments in infra-structure are planned for the upcoming years, wich should provide a favorable environment for the region's sustained growth.

5) Growing legal and juridical interaction among Mercosur member countries must be viewed as a fundamental element to ensure the region's successful integration.

Mercosur member countries offer the physical and legal structure for the development of important scientific and technological partnerships, with emphasis on new product research and development and innovations within the economy's various sectors.

Drawn up in Monaco on September 30, 1997.

Program

"Investments in Brazil -Cooperation and Repercussion in Mercosur" 09/29/97 - 09/30/97

09/29/97

8:30

Registration and Coffee

9:00

Welcoming Remarks

Mario Garnero, Chairman-Fórum das Américas and Brasilinvest - Brazil

Opening Remarks

Michel Leveque, Minister of State, Principality of Monaco

Message

Luiz Felipe Lampreia, Minister of Foreign Affairs - Brazil

"Mercosur - A Step Towards the Integration of the Americas"

Marcos Castrioto de Azambuja., Brazilian Ambassador to France

" European Union and Mercosur - Main Line of Cooperation"

Chancellor Helmut Schmidt - Germany

"Mercosur - A Political Reality"

Diego Ramiro Guelar, Ambassador of Argentina to the USA

Coffee Break

Chairman - Rubens Barbosa

"Monaco, E.U. and Mercosur - The Private Sector's Role"

Michel Pastor, President. Maison de L'merique Latine-Monaco

"China and Brazil - Cooperation for the XXI Century"

Stanley Au, Chairman, Delta Asia Financial Group - China

"Brazilian Economy, Real Plan, Stabilization and Privatization" Rubens Barbosa, Brazilian Ambassador to the United Kingdom

> Lunch 14:00

Chairman - Sidney Sanches

"The Current Stage of Scientific and Technological Development in Brazil"

Flávio Fava de Moraes, President of the University of São Paulo - Brazil

and

Carlos Alberto de Azevedo Pimentel, Ambassador and Director - Department of Scientific, Technical and Technological Cooperation, Ministry of Foreign Relations, Brazil

"Privatization in São Paulo State"

Emerson Kapaz, Secretary of Science, Technology and Economic Development - São Paulo State - Brazil

"São Paulo, Business Capital of Mercosur "

Celso Roberto Pitta do Nascimento, Mayor of São Paulo City - Brazil

"The British Industry and the Opening of the Brazilian Market"

Sir Peter Heap, Advisor to the HSBC - Hong Kong & Shanghai Bank, Member of the International Committee - CBI Britsh Industry Confederation - United Kingdom

Coffee Break

"The Future of the FTAA and its Relationship with Asia and the European Community"

C. Fred Bergsten, Director of Institute for International Economics - U.S.A.

"Brazilian Constitutional Reform"

inocêncio de Oliveira, Leader of the Majority Party - House of Representative Federal State Representative - Brazil

09/30/97

9:00

Chairman - Nelson Jobim

"Economic and Political Ties Among Trade Blocks"

Jorio Dauster, Brazilian Ambassador to the European Community - Belgium

"Brazil : Towards Shared Growth - Challenges in Poverty Reduction and Improved Equity "

Gobind Nankani, Director - World Bank - USA

"Economic Law - Consumer Protection Law - Standards Against Unfair Competition Anti-Dumping Law"

Nelson Jobim, Justice of the Federal Supreme Court - Brazil

Coffee Break

'The Importance of Private Foreign Investments for the Growth of Latin America"

Mario L. Baeza, President - TCW Trust Company of the West - Latin America Partners, L.L.C. - USA

"New Geopolitics of South America and Implications for Capital Markets"

L. Ronald Scheman, U.S. Executive Director at the Inter American Development Bank - USA

"Foreign Investments in the Brazilian Telecommunications industry - Brazil

Carlos de Paiva Lopes, Chairman - Ericsson Telecomunicações S.A. - Brazil

"Standards for Juridical and Institutional Harmonization in Mercosur"

Julio Salvador Nazareno, Chief Justice of the Supreme Court - Argentina

Lunch Break

14:00

Chairman: José Sarney Filho

"Spain and Mercosur -How to Strengthen our Ties"

Jorge Stecher Navarra, Member of the Board of Banco Popular Español - Spain

"Civil Construction and the Entertainment Industry in Brazil"

Marc Pietri, President - Constructa S.A. - France

Chairman - Ilmar Galvão

"The Improvement of Democratic Institutions in Brazil and Mercosur"

Ilmar Galvão, Justice of the Federal Supreme Court and Chief Justice of the Higher Electora Court - Brazil

"Agribusiness in Brazil"

Sergio Cragnotti, President - Bombril and CIRIO S.p.A. - Italy

"The Automotive Industry and Globalization"

Cesare Romiti, President - Fiat S.p.A. - Italy

"The Brazilian Privatization Program for Railroads, Highways and Ports"

Eliseu Lemos Padilha, Minister of State for Transports - Brazil

Closing Remarks : Mario Garnero

20:30

Gala Dinner

"Integration of the Americas and its Effects on the World Economy"

President George Bush - U.S.A.

With Presences of:

H.S.H.Prince Rainier III
H.S.H.Prince Albert of Monaco

Mario Garnero

Chairman, Fórum das Américas and Brasilinvest - Brazil

"Welcoming Remarks"

Ladies and gentlemen, it would be difficult to mention all the authorities here present –, and I apologize for not doing so because today we are short of time – because of the interest the seminar has aroused and the diversity of people, regions and countries represented here. Naturally we have diplomats, business people, intellectuals, university presidents, men and women holding a wide variety of public positions in organizations such as the World Bank and the IDB and personalities that have come from all parts of the world, to all of whom I extend a warm welcome and thank them for being with us.

Another event I would like to emphasize and to express my appreciation for is President George Bush's visit to us, in response to our invitation. He will be with us this afternoon and will join us at our closing dinner tomorrow when he gives a speech. I would also like to welcome all the Brazilians present here, through the Transport Minister, Eliseu Padilha, and I particularly

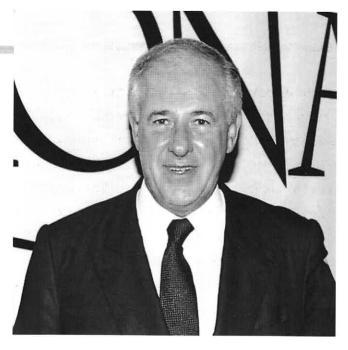
wish to salute the Principality of Monaco, which is becoming a great international financial center and is celebrating the 700th anniversary of the Grimaldi family. My special greetings also go to former German chancellor Helmut Schmidt.

We need to be prepared for new processes of integration, negotiation, technology transfer, the formation of joint ventures, exports and imports. Brazil, the natural leader of Mercosur on an axis that today is formed with Buenos Aires, is part of an enormous block with a GDP of around US\$1,400 trillion. We have all the potential conditions to attract investment. Brazil comes in second place among the emerging countries, second only to China, as a pole of attraction. We rank fifth in worldwide terms, thanks to the significant progress made in regard to our economic policies and to the stabilization that we have achieved. Many people make unfavorable comparisons between us, and Argentina, Paraguay and Uruguay, and

they are undoubtedly mistaken about these four countries and about the future of South America. There are a few who point to occasional crises, but I have confidence that these will not happen again within the framework of Mercosur and Latin American integration. There are significant differences, for example, between Brazil and Thailand. Thailand will undoubtedly find its road to recovery, but the size and diversity of the economies do not permit hasty comparisons or comparisons made merely for the lecture hall.

Brazil and Argentina together lead Mercosur. Brazil is part of a mutual consultation block in Latin America, on a pivot that runs not just through Argentina but one that will run through all the countries of Latin America and certainly the Caribbean. We are no longer a country with a knowledge gap, we have a stable economy, we have democracy, we are all committed to new leaps forward in terms of quality. Brazil is a natural candidate for a permanent seat on the UN Security Council and certainly the Brazilian business community is united in support of the Brazilian government's claim in this respect and of the initiatives taken by the Foreign Ministry, by President Fernando Henrique Cardoso and by Foreign Minister Luiz Felipe Lampreia. We have a respectable foreign policy. We were here in the Second World War, fighting alongside the allied countries. Brazilians fought and died in Europe for democracy and freedom. Because of its qualities and potential, Brazil is an essential party at negotiations involving the relationship between present and future economic blocks, and it is, as will be seen at this conference in Monaco, in favor of the maintenance and the strengthening of Mercosur.

You will certainly have the opportunity of



hearing people, in this crowded agenda, who are much better qualified than I to give you this information. We would like to say thank you very much to all of you for being here and extend a warm greeting to some Brazilians who were willing to raise, overseas as well, this flag of business knowledge and the interchange of business between all of the world's blocks. We wish to greet those who came from China, one of them, Mr. Stanley Au, who truly represents China's business community. I would also like to greet our esteemed Fred Bergsten, who flew in from China without any luggage, and who had been flying here and there, and will be shortly speaking to us. We have too, representatives from the Arab countries, representatives of the government of Bahrain, and of other parts of the world, and we are certain that this meeting will be fruitful.

Businessman Mario Garnero, 60, has a Law Degree from the Catholic University of São Paulo where, as a student, he presided over the University's Law Students' Association. Part of Mr. Garnero's academic background includes courses in the United States and Germany on Industrial Relations and Financial Administration. He has been Chairman of INES (National Institute for Special Studies), a director of Volkswagen do Brasil, Chairman of Anfavea – National Association of Automotive Vehicle Manufacturers and of the CNI – National Confederation of Industry. In 1965, he set up "Forum das Americas", at which time he Invited Senator Robert Kennedy as guest speaker.

Mario Garnero is Chairman of the Board of the Brasilinvest Group, a business organization that was established in 1975 as a merchant bank.

The establishment of Brasilinvest Group, which has already attracted investments in the range of US\$ 2 billion to Brazil, gathered partners from 16 different countries who are still minority shareholders. The Group is also active in the financial market through its large real estate credit institution. In addition, Mario Garnero is Chairman of Jurisul – The Interamerican Institute for Juridical Studies on Mercosur.

Michel Leveque

Minister of State, Principality of Monaco

"Opening Remarks"

It is a great pleasure for us to take part in this meeting. We have two days us during which I shall be very happy to work with everyone. In the name of the Principality of Monaco, it is a great pleasure for us, and I hope that you will retain the best possible memories of your stay here. Let me extend my congratulations to you all, to my friend Garnero, president of the Brasilinvest Group and president of the Forum of the Americas, who has been the brilliant organizer of this event. I must also give thanks for the contribution of the Monegasque authorities who have worked so hard for the success of this meeting.

I am not indifferent to the fact that the principal theme of the conference that I have the pleasant duty of opening this morning is Brazil and Mercosur. I myself am someone with a great passion for South America and a short time ago I had the opportunity and the pleasure of living there as the Ambassador of France to Brazil, a country where I even have family roots. For me, this country was, and continues to be, a

fantastic example of political renewal and economic vitality. I also believe that the evidence of the country's development potential is great. Action to create awareness in potential investors is, however, indispensable, as is action to develop the flow of financial and commercial interchange with Europe and North America, as well as with the other continents. These investors' interest must be encouraged with guarantees as to their legal rights, investment rights in respect of the policies that are followed, especially as regards privatization, as well as in relation to the potential that the creation of Mercosur already offers, and will continue to offer.

The objective of this seminar is precisely to develop that encouragement, and with the various contributions that will be given here, we will have the ability to bolster that development. The economic, trading and social relationships that are being developed by Brazil and by the countries of the Mercosur are great; I have seen proof of this on the spot. Liberalization, glo-

balization, and economic progress in these countries all help in this context, and all this is necessary to underline that lasting development of stability is an essential element. This entire social and economic movement - which has been heightened through the creation of Mercosur - has created new conditions for the development of interchange, of infrastructure and of investment without closing up to overseas. At the same time, Mercosur has

negotiated association and cooperation agreements with the world's other great economic zones, above all with the EU, but also with NAFTA.

A seminar of this type, held in Monaco, is proof of the will that this Principality has to play the role of a crossroads for the interchange of ideas, a meeting point for exchange of opinions on the world scenario in the economic

and financial fields. And I want to emphasize very precisely that the Principality will do everything in its power, will play its own trump cards, to attract more and more investors and financiers from all countries to Monaco, so that it can really take part in the world's economy. This is the reason why, in spite of a considerable difference in size and a considerable distance too, the Principality looks favorably to South America and specifically at Brazil, as we think in terms of the mutually profitable relationships that could be born and prosper, for example, in the tourism, financial, telecommunications, and small companies sectors, as well as in the real estate and pharmaceutical sectors. Thus, there is an entire range of fields in which

Monaco, in spite of its small size, has the ability to cooperate with all countries of the world. The program of events planned for these two working days and the very name of this seminar show the position that Mercosur holds today when anyone refers to this great organization.

People no longer deny that regional economic groupings represent an advantage, an economic chance for the member states to prosper. Some-

times, it is the only chance in this context, and the Principality of Monaco is somewhat special because it is not one of the member-countries of the EU. Yet all the connections that unite the Principality to France and its whole customs situation, allow the Principality to benefit, for the services and products that it supplies, from the free circulation of goods within the EU. This is a very important point. Monaco con-

tinues to keep its sovereignty and its particular characteristics, but it is absolutely not an isolated country. On the contrary, Monaco enjoys the same freedoms and facilities that exist in any other European country. It is logical then, in that spirit, that Monaco should not have stayed on the sidelines of the process to create a single currency.

Contacts with the French authorities guarantee that Monaco will introduce the Euro in its territory, and it will make the Euro its legal tender, in accordance with the same schedule that will be applied in France. I am convinced that the introduction of the Euro will be a source of strength and additional opportu-



nities to the Monegasque economy, thanks to the improvement of the interchange within Europe and with other continents. As everybody knows, this year we celebrate the anniversary of Monaco, the 700 years of the Grimaldi dynasty. It is a long period of historical continuity, that is proof of, and witness to, the stability of the Principality and its institutions. It is also a guarantee of its current and future success, and of the interest that the Principality can represent for investors and for economic and financial agents that want to find a secure, safe, sound and transparent place in the heart of Europe, offering the best professional qualities of service. And this is without mentioning Monaco's charm and its art of savoir vivre that, I think, even the toughest of financial agents can appreciate.

I would like to add that Monaco continues to foster such large-scale development projects as the 7,000 square-meter Centro Grimaldi which will hold 2,000 people and offer space for exhibitions, new hotels, a new underground station, and a new port that will double the capacity of the Hercules port, or all the operations associated with the Opera - Garnier. So I hope that you will have several good reasons to return to Monaco before the year 2,000 and even after the year 2,000. In expressing these aspirations, I wish you two fruitful days of work and a very pleasant stay in Monaco.

Michel Leveque, 64, was born in Algiers. He has a Law Degree from the Faculté de Droit, Paris.

Mr. Leveque is a career diplomat who served as French Ambassador to several different countries: Brazil (1993-1994); Morocco (1991-1993); Lybia (1985-1989) and Algeria (1995-1997).

Besides the above-mentioned posts, Mr. Leveque also served as:

- -First Secretary, Moscow Embassy (1965-1967)
- -Second Counselor, Tunisia (1974-1978)
- -Cultural Attaché, Tunisia (1974-1978)
- -Deputy Director of African Affairs, France's Foreign Office (1982-1985)
- -Political Advisor to NATO's International Secretary (1978-1982)

Luiz Felipe Lampreia

Minister of Foreign Affairs - Brazil

"Statement"

It is with great pleasure that I address these words to the participants of this timely seminar on investment opportunities in Brazil that the Forum of the Americas and the Principality of Monaco are holding in this city. In fact, I believe that Brazil today can claim to be one of the most attractive places for the world's investors because, besides its own, intrinsic qualities, among them its immense territory, its huge population representing a consumer market of more than 150 million people, and its natural wealth, Brazil now also has specific factors that, I believe, make it a particularly attractive country for foreign investors.

Among these factors, I would single out the privatization program that is being conducted by President Fernando Henrique Cardoso's Government. This privatization program involves a true restructuring of the Brazilian state, which will no longer take part in industry and production activities and will become a state looking after justice, education, health, and the

well-being of its people. We have already achieved a lot of success on this road to privatization. This year in particular, our highest achievement was the successful sale of CVRD, one of the world's largest mining companies, a model company within the Brazilian state sector. CVRD was sold in a way which is perfectly compatible with national interests; moreover, the company's ownership interest will remain in Brazilian hands.

At the same time, the privatization process of the telecommunications sector was initiated, especially that of Band B cellular telephony. We witnessed the extraordinary interest that was aroused and which resulted in winning bids from the consortium that won the concessions in São Paulo, both in the capital and in the interior of the State, that were well above the reference prices. This showed effective trust in the future of Brazil and its market. And this is why US\$ 16 billion was invested directly in Brazil this year. This is not speculative investment, it is not investment by capital

investment in people, in administration, wealth creation, and job creation. This makes us certain that Brazil is on the right track in the view of the international community.

Brazil has a banking system that is perfectly sound today, after a difficult beginning when, as a result of economic stabilization, Brazil's banking sector was no longer over-inflated. In fact, before the stabilization plan, the banking sector represented more than 15% of the country's entire wealth, of the whole of its gross domestic product. Today it represents less than 10%. It has contracted, and some banking conglomerates went under in the process. These were groups that were not as solid and did not have the same management ability of those that survived. The Brazilian banking industry, both in the public and the private sectors, was extensively restructured. I believe that this is one of the most important features that Brazil can offer to the international investing community. Investors now include major financial groups that have made significant investments both in Brazil and in Mercosur.

Speaking of Mercosur, this is the second theme to which I would like to refer. Mercosur is, in fact, an expansion of our national circumstances. It is an important reinforcement of our economic space and of our international economic range. Mercosur represents a consumer market of more than 200 million inhabitants. It represents the territory of four countries where free trade is developing, where there is a common position with regard to other countries through a common external tariff. We are progressing every day towards the establishment of a single market so that, in the short term, people, goods, services and capital can circulate freely in that single economic space that is the southern cone of South America, that is Mercosur.

In addition, we have been successful, after long, detailed and sometimes even difficult negotiations, in establishing agreements with other South American countries with which we also have very strong ties. I would certainly single out Chile, with which we already have had an agreement in force for about a year now, and Bolivia, with which we signed an agreement in December last year. We are now in an advanced stage of negotiations to enter into an important and significant free trade agreement with other South American countries,



especially those that are part of the so-called Andean Pact. This will allow us to take a huge step towards the commercial unification of South America via the trade agreements already entered between us. But the integration of South America that is very important for investors, does not just happen through trade. At present, integration is also happening in our region through energy, transport and communications.

Brazil was practically isolated, but today it is negotiating contracts to buy crude oil, gas, and electric power from several of its neighbors. We are building a network of interdependence, a network binding our economies closely together; and this also translates into a well advanced project for a road network, a network of highways and of communications, that will link the Pacific to the Atlantic and Brazil to its neighbors, such as Guyana, Peru, Colombia, Bolivia, Uruguay, Argentina and Paraguay. There are new highways, new railroads, tunnels, bridges, in short, an entire system bringing us closer to each other, which is justified and is demanded by this expansion in trade. Brazil today, I feel confident in saying this to you, with all conviction and with all honesty, is certainly one of the most attractive places for investment in the world, and I am sure that at this seminar, which is being held here today in Monte Carlo, you will discover the dimensions of Brazil's attractiveness.

I hope that you will join all those who are helping to build this new, modern and, above all, more equitable country, that we all desire, through the efforts of the Brazilian people and of the Fernando Henrique's Government.

Born in Rio de Janeiro on October 19, 1941. Studied Sociology at the Rio de Janeiro Catholic University (Pontifícia Universidade Católica do Rio de Janeiro/PUC) and Economics at Columbia University, NY.

Graduated from the Brazilian Foreign Service Academy (Instituto Rio Branco) in 1963, Mr. Lampreia has been a career diplomat since then. He

has served as Ambassador of Brazil to Portugal, Secretary of International Issues in the Planning and Coordination Secretariat of the Presidency of the Republic/SEPLAN, Head of the Technical Cooperation Department of the Ministry of Foreign Affairs, Secretary General of the Ministry of Foreign Affairs for Bilateral Political Issues, Permanent Representative of Brazil to the United Nations Organization in Geneva.



Marcos Castrioto de Azambuja

Brazilian Ambassador to France

"Mercosur - A Step Towards the Integration of the Americas"

Thank you very much, I believe that brevity almost leads me to be rude to the other members at the table, in not greeting them individually, in not referring specifically to each one, although this has already been done. But I believe that we all owe a word of thanks to the minister of state of the Principality of Monaco, Michel Levêque, who is here with us, and through him, to the sovereign prince of this Principality, in gratitude for their hospitality. I think we are all aware of the typical graciousness of Monaco, this charming place. Also, in praising the Minister of State, I would like to mention that he has been France's Ambassador to Brazil and, more than that, one of his sons is married to a Brazilian, which means that the integration between him and us has reached its most intimate, profound and permanent form. So it is to him and this principality that I express my gratitude as Brazil's Ambassador to France and therefore intimately attached to this part of Mediterranean. I want to follow the advice of one of my old political masters, who said that we should speak loudly to be heard, clearly to be understood, and briefly to be applauded, so I hope I shall be audible, comprehensible, and brief.

In his speech, Minister Lampreia referred to the fundamental points of what the presentations would be, and I ask that you see this neighborliness between Diego Guelar and myself, as more than the occasional circumstance of a table arrangement, but rather as a metaphor of the closeness between Brazil and Argentina. A few weeks ago in Miami we were also together saying pretty much the same thing: one speaks – it depends on the advantage of who speaks first, one anticipates the other, and the other complements the first. Such a communion of interests, such intimate ties have been created between Brazil and Argentina, that between the Ambassador, when he was Argentina's

Ambassador to Brasília, and me as Brazil's Ambassador in Buenos Aires, there was a true conspiracy of affinities, of convergent interests, of an increasingly closer relationship. Therefore, from this end of the table, I see a real expression of the closeness and understanding that exists between us, which was what minister Luiz Felipe Lampreia referred to when emphasizing what the Mercosur gives to Brazil. I would quote the words he used, which were: "an extension of our circumstances, a reinforcement of our credibility, an increase of our power."

Therefore, Brazilian identity today has an additional factor, which is the Mercosur identity. A Brazilian identity is all the more Brazilian for being part of the Mercosur, and the same can be said about of the Argentine identity. As today I would like to speak a little about Mercosur as a starting point on the way to other associations, I think it is useful to say, straight away, that Mercosur is a child of the 90's, just as the European Union was a child of the 50's and the beginning of the 60's. Thus, Mercosur has the characteristics of our time: it is fast, agile, has as little bureaucracy as possible, and it has been institutionalized just enough to be able to operate. It corresponds to agility and speed that are the characteristics of our time. It is the best example that exists of the so-called open regionalism, of regionalism that doesn't close in on itself, but is essentially a platform pointing in the direction of other processes of association and of understanding. Therefore, Mercosur has to be seen, not as the end of the journey for the four founding partners, but as the beginning of the highway that, together, they will travel on towards broader understandings.

Thus, Mercosur, more than a thing in it-

self, is already widely justified by the results. It is a corner stone, a launch platform, through which four neighbors found, in the nature of their geography, in the closeness of their culture, and in the links of their history, those basic constituent elements that have allowed them, in a short period of time, to achieve what it took much longer to do in Europe. In the first place, because among us the three basic elements were already an established tacit fact. The cultural, linguistic and legal affinities were already there. I can compare a Mercosur meeting - with Ambassador Jòrio Dauster's permission with its great linguistic simplicity, with substantial legal understanding, with the great similarity of models, to the difficulties that Europeans still find when dialoguing with each other, because of the plurality of languages. and diversity of legal systems. Therefore, we are a system that ran faster, because it was already much closer in its core. And above all, because for more than a hundred years, or much longer, there has been no milltary conflict among the partners of Mercosur, and there has always been good understanding. South America, sometimes self-critical in terms of the turbulence of its internal politics, should record with pride to what extent its diplomacy and its national wisdom, have for centuries prevented any type of military confrontation among us such as those that have divided and lacerated the Europe that welcomes us today.

Therefore, I believe that Mercosur is the result of a great unrecognized similarity that flourished at the beginning of the 90's with cumulative effects, and began a virtuous circle comprised of three essential factors: the first, democracy as the indispensable political base for understanding; second, the macroeconomic rationale that causes countries to seek forms

of economic action that are compatible with the broad rules of economic rationality; and third, the opening that led us to abandon the autarchic or semi-autarchic processes that were induced by the policy of Import substitution. Thus, Mercosur was born out of a virtuous coincidence of three factors: democracy, economic rationality, and opening up to the world. And we were able to find, initially through the Brazil-Argentina understanding, the necessary conditions for creating, with speed, simplicity and at low cost, that source of action that we hold in our hands today. Mercosur is, therefore, an organization, an entity, a reality that surprises everyone, and I believe that above all it surprises us, its coauthors, because of how speedy its implementation was - nobody imagined that it could move so fast -, and how effective its understanding is - there was never an international understanding with such a low degree of contentiousness. The problems that might endanger good understanding are minimal and, so far, the very mechanisms for solving disputes established through the Brasília protocols and other instruments, are very seldom resorted to. What surprises in Mercosur is the effective interaction among economic agents, government agents and, above all, among the governments of the bordering states and provinces that have created, within Mercosur, a Mercosur of still greater intimacy. More and more, Mercosur seeks to do things well. seeks to expand relationships among its partners within common space, and in this the results have been extraordinary. Mercosur involves more than 200 million people, 10% of the world's population. It has self-sufficiency in all resources, and a vastly expanded commercial interchange - not by diverting trade, but by creating trade. All this has led to this success story that so

greatly motivates us. On the other hand, the outward-looking Mercosur, the extrovert Mercosur, has been more modest up to now. So far, we have not been creating those common export platforms from which to take full advantage of the competitive and comparative advantages of the partners vis-à-vis other markets and that is a major task.

Mercosur therefore is a process. It is not the sum of its stages, it is an intensely dynamic process. capable of adjusting to new demands at any moment. And we see Mercosur as a building block from which we will negotiate with the European Union. In this context there are already important agreements in place. And others will surely come successively, through the negotiation process with the other countries of our hemisphere in the project for the FTAA. We feel that the FTAA project should be negotiated through a close dialogue with our own Mercosur, as one of the privileged participants, and through a search for even greater understanding with the countries of the Pacific and of Asia. Therefore, Mercosur is several things: it is an association among the four and between the four member countries and the two countries closest to it, namely Chile and Bolivia, with the prospect that the Andean Pact will soon join in; it is a reinforcement of our Latin American features, which is a concept gaining ground as a geographical, political and economic expression that is greater than the former concept of Latin-American features, that still survives certainly, but which is difficult to define. It is our springboard from which we shall build the FTAA, it is our platform for introduction into Europe, and it is also the road that leads to the Pacific and to Asia.

And so I speak to you today in the role

of one who nowadays represents both Brazil and Mercosur in France. I believe that Ambassador Diego Guelar in Washington does much the same thing today, not with the intention of treading on the space that belongs to the Ambassador of Brazil, but as a reinforcement of our capacity for prestige. I return to minister Lampreia's words: broadening of the circumstances, reinforcement of credibility, increase of power. Among us, appropriating the Mercosur flag does not detract in any way from each one's flag. The critical mass of its national representativeness merely adds to prestige. credibility, and influence. And therefore we are here in Monaco, in Europe, bringing a part of this message, that Mercosur is today a constituent part of our national identity. As a Brazilian, I am also a citizen of Mercosur - and Europeans will understand this, in so far as a Frenchman or Italian is also European. Mercosur has given us this additional identity, which is very important. I believe that we should also transmit the message from the beginning, Mercosur did not intend to be the old Brazil plus the old Argentina, plus the old Uruguay, plus the old Paraguay, in an enlarged space, adopting the same closed policies as before. Mercosur is essentially made up of new actors in new circumstances, bringing new things and seeking, above all, that harmonious, careful, measured, negotiated opening that is the essence of the type of action that we favor.

We are moving fast, and I believe that, of all the criticisms that can be made of Mercosur, the most unfounded criticism is to accuse it of slowness. Mercosur, in every respect, has moved at a pace that surprises not only its partners but also the international community. But that opening has to be measured because the countries that form Mercosur have already

made substantial opening gestures, which should be seen not just as gestures in themselves, but particularly as contrasts to their previous policies. What Argentina, Brazil, Paraguay and Uruguay did in terms of the opening up of their economies is absolutely extraordinary. Things were done at exemplary speed, and above all, there were no demands for any compensation in exchange, other than their perception that what these countries did was appropriate, urgent, and necessary.

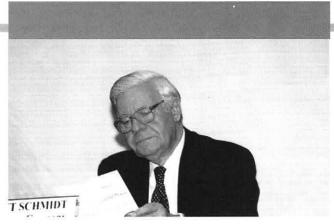
So I believe that my mission to France is also that of bringing the image of Brazil as it was presented by Felipe Lampreia: of an open, rational, democratic Brazil, capable of attraction. In addition, my, mission is to bring the idea that we are also part of this larger community that fully reinforces us. So it is in this spirit that I speak to you, with the conviction that Mercosur will soon find, I believe, the gradual, natural expansion of its hopes in Chile and in Bolivia, in the countries of the Andean Pact. But it is above all in the hard core, in the heart of the four founders that it finds its vitaly and its raison d'être.

Therefore, let us state this clearly. Mercosur in itself is one of the most useful instruments that Brazil has ever had throughout its history. I would even say that the statement is not rhetorical, it is the simple truth. Mercosur is the best idea that the four partners have had since their independence; it is the first idea that is no longer - as has so often happened in Latin American life part of the repertoire of a more or less romantic concept. It is the first idea to move into the field of effective pragmatism. Second, Mercosur represents the first expansion of influence and prestige and power that we have had since our respective national independence. Therefore, it is something that

adds its effect to us. Thus it is, when making this declaration, after five years in Buenos Aires, in the construction of the system together with our most important partner, that I come to Europe with that additional mandate of seeking to create constant awareness from our French and European counterparts, of that renaissance in South America, of a new entity characterized by modernity, rationality, democracy, effectiveness, low operating costs, by lesser bureaucracy, and above all, that Mercosur, more than just an invention, is a recognition. It is the recognition among the four member countries of the affinities they have in common. As Luiz Felipe Lampreia said a short while ago, Brazil draws on the vitality that comes from the energy, the petroleum, the gas, the electricity of its neighbors.

Neighbors who used to live behind walls, who were shut off from each other, have now become part of an extensive system of communication by road, rail, and pipelines of all kinds. It is in this way that we are really building a relationship between us that will allow goods, services, capital and, finally, people (who are more complicated), to operate and interact in an effective way. I believe that these are my words of introduction. I believe that others will come and go, throughout these two days and this month, and will help shape this map of Brazil in the world. And Brazil's presence in the world today must also be seen through its decisive, fundamental, and important participation in Mercosur.

mat currently serving as the Brazilian Ambassador to France. In the course of his 30-year diplomatic career, Mr. Azambuja served in the Brazilian Embassies in Mexico City, London and Buenos Aires, among others. He was also a member of the Brazilian delegation to the United Nations in New York and Brazilian Ambassador to Geneva's Disarmament Committee. Ambassador Azambuja has delivered speeches and lectures at various seminars and conferences held in Brazil and abroad, and authored several articles on the history of diplomacy in Brazil and on Brazil's foreign policy.



Helmut Schmidt

Chancellor - Germany Editor - Die Zeit

"European Union and Mercosur -Main Line of Cooperation"

Having to speak on the topic of the EU and Mercosur and having in mind the fact that this audience is going to listen to a variety of specialized speakers, I would like to confine myself in a more global way to look back onto the second half of this century and look ahead into the first half of the 21st century. I myself, having left the field of operation in intercontinental affairs and also the field of domestic politics - and it has been quite some time - I do flatter myself to be benefited by keeping quite a personal distance from day-to-day affairs. I must admit that I have not been to Brazil and to Latin America since last year. But perhaps one fact that helps me to understand and relate to you the basic lines of evolution and of medium and long term trends is that Hamburg, my native city, concluded trade treaties with Latin American states since long before Bismarck united Germany the first time. We have maintained our close ties with Brazil, Argentina, Chile and others ever since.

Let me start out with a few observations on the subject of globalization. When fifty years ago I started my career employed as a young economist in a governmental office, the world economy appeared to consist mostly of economic exchanges between the industrialized countries. The OEEC, later renamed the OECD (Organization of Economic Cooperation and Development), seemed to be the major body in the world economy besides IMF, but then the IMF was dominated by the United States and any halfway important currency was pegged to the American greenback, the U.S. dollar. Only in the course of the 50's did developing countries start to organize themselves internationally. At that time new terms such as "non-aligned countries" and "under-developed coun-

later on correctly renamed as "developing tries" countries" were coined. Apart from them, the world appeared to be cut into two major parts, the West on one the side and the Communists on the other side. Now, since the beginning of the 90's, when the Soviet Union and its block had disappeared, the North Atlantic Alliance and NATO today are searching for a new definition of their purpose or, to be a bit malicious, one could say, NATO is in search of an "animae". But already earlier on, we saw regional groupings that were coming up; first the European Community, then the not quite regional OPEC, although in the core it was a regional grouping, then ASEAN and then NAFTA - North American Free Trade Zone - and then Mercosur; and maybe others are going to come up in the future.

But the most striking new phenomenon of the present is what one today calls globalization. What does that word globalization stand for? There are at least three major answers to that question: first, it stands for the fact that the number of participants in the open markets of the globe has at least doubled since the situation before Den Xiaoping's opening of China; at least doubled since the beginning of the 80's, and since the demise of Moscow's Comecon, at the beginning of the 90's. First, the four little tigers in Asia in the meantime became grown-up tigers and then very auickly many countries undertook efforts to enter the global markets. You would see Vietnam as a participant rather quickly; India, more than twelve or fifteen times as large as Vietnam, is very quickly becoming a major participant in the global economy and of course Brazil, Mexico and other Latin American countries who, not so long ago were countries from which you bought coffee, cocoa and bananas and whatever. Now, a growing number of Asian and Latin American countries are taking on global roads, roads to the global markets. Only most of Africa is still being left out and may still be left out in the first quarter at least of the next century. In that context, one has to keep in mind that the world's population is growing at a totally unprecedented pace.

At the time of Jesus Christ there were two hundred million human beings, and it took mankind 19 centuries to grow from 200 million to 1.6 billion people at the beginning of our present century. But then within this present century, within our century, mankind has quadrupled from 1.6 billion, 6 billion human beings. And this trend will prevail at least over the first quarter of the next century as well, and an ever growing part of mankind will live in mega cities, like in Brazil, and in Latin America, in the Middle East, in Asia, maybe, later in Africa. Mega cities, with all the enormous and growing difficulties to manage them.

Secondly, today's globalization is characterized by the unprecedented speed of scientific and technological progress. The 19th century was dominated by the coal-based steam engine, by steam ships and railways. It was also characterized by large-scale manufacturing on the basis of steam and coal whilst agriculture still remained rather traditional in its technological matters; in almost all the continents, there were no machines, no chemical fertilizers. But then the 20th century started the automobile, the aircraft, oil became extremely important as did chemistry and pharmacology. The most important progress in the 20th century happened in the field of military weapons and other means of warfare, and deriving from that came the fields of traffic, transportation and later on computers,

satellites, telecommunications, biotechnology and all that. What is new here is the fact that, differing from the first half of our century, almost all of these new technologies are spreading very quickly all over the globe. This is really new. They have spread to China, Indonesia, Brazil and Latin America.

And the third part of the answer to the question of globalization, in my view, has to do with the unbelievable liberalization of international trade and international financing. It's a very new phenomenon. Mankind today is experiencing an enormous leap from former compartmentalization towards global entanglement. If something happens in Mexico, it will, within a matter of seconds, have an effect on the exchanges in Tokyo or New York If masses of people kill each other in the Korean Peninsula, or in Bosnia, or somewhere in Africa, or elsewhere, the United Nations will intervene. Or a trade policy speech by an important political figure, let's say in Santiago de Chile, or in Beijing, will immediately draw an echo, an answer in Brussels or in Washington. All this is new. Before it would have taken six months, nowadays it takes 24 hours. Most people in our world are much closer to each other than ever before in history, and this trend will persist over the rest of our century. In only another two years, it will persist over all of the 21st century, with enormous political consequences, financial, economic, and through television, cultural consequences.

And the power structure of the oncoming 21st century will, for obvious reasons, differ considerably from what we have been used to. Of course the USA will remain a world power for obvious reasons that do not need any explanations, but also China, within a few years will be considered by any prudent human

being to be growing into a world power, even if some American politicians like to ignore that future fact. Also Russia, despite her present weakness, which might stay for some 20, 25 years, may stay for even longer, also Russia will still have to be considered a world power. Take for instance the fact that when the sun set today on the Pacific coast of Siberia it was about to rise in St. Petersburg and there are enormous mineral reserves, great parts of which are still to be explored, in this vast territory. Well, then Japan will remain as a financial world power because I do foresee that the propensity to save in the Japanese nation will not be done away with; they will probably be the greatest exporters also in the future, of national savings; and then of course India, quickly coming up, and then Indonesia and Brazil.

I do consider Brazil as one of the world powers of the next century. Maybe also the European Union will grow into a world power, it remains to be seen. But neither the U.K., Italy, France, nor Germany will be world powers; they are just too small in comparison with those that I have mentioned earlier. They are just single countries, they do not have enough economic weight, therefore they do not have enough political weight to stand up as single powers, to defend their interests visà-vis the world powers, whether in the habitual fields of trade, or currency relations, monetary matters, or whether in the very important future, over the question of how to preserve the cleanliness of the atmosphere and the cleanliness of the waters of the oceans and to preserve it at whose cost and at whose sacrifice. These are the future struggles between powers in the oncoming century. It appears logical to me that, in facing the future power structure, states will try to defend their interests by regionally grouping them altogether. They

have started to do this already in the second half of this century.

European Union community was The the first example, and its success brought about regional groupings which I have already mentioned earlier on, Now it's obvious to me that Washington will try, whoever is going to be president and whenever, to establish and maintain a dominant role all over the globe. One has to see its efforts, for instance to extend NATO into the former communist Eastern Europe, as well as its attempts to form trading blocks with Asia, with the European Union, the Free Trade Area of the Americas, and also with Mercosur. Washington will try to be a partner in each of the regional blocks, maybe the only partner in each of the regional blocks. This would make the United States and only the U.S., a component and, in the Americans' view, hopefully a leader in each of the regional groupings.

I consider such American efforts to be legitimate as they obviously sponsor national American interests, at least as far as the Americans themselves interpret their interest. But the question that arises is if it is really true that what seems to be good for America must necessarily also be good for the rest of the world. In the meantime, we have learned that what is good for General Motors is not necessarily good for the United States.

Now let me insert here a few remarks on the evolution of the EU, because it is the current history of five decades that may offer some insights and also shed some light upon the future of Mercosur. It is true that at the end of the 40's, two considerations played a dominant role when six European countries under the Schuman Plan of 1950 started to unify their

coal and steel industries - (which, at that time were considered, and correctly considered, to be the key industries) - in order to rebuild the devastated continent. Two main issues were considered: one was to build a barrier against Stalin's Soviet imperialism and the other one was to bind Germany into a greater entity. The former motive is absolute, at least for the foreseeable future of decades. The latter motive is not and still comimportance, particularly due to the fact that Germany has been united in the meantime and nowadays its size is somewhat bigger than France or Italy or Britain. But in the meantime, a second motive has gained ground considerably, especially in countries like Ireland, Spain, Portugal, Denmark, Sweden, Finland and Austria. They have joined the European Common Market because of its obvious economic success. The Common Market offers greatest chances, offers the greatest potential for economic success, for economic growth, for the masses of participating states, than a national market does. And therefore, we have, in the meantime, grown from six member states to fifteen; and a dozen states in the former eastern part of the continent hope to be admitted to the club .

The economic advantages of participating in a market that is bigger than a national market can be better illustrated by the example of Italy, as in the enormous success of Italy's manufacturing industry when compared, for instance, with the British manufacturing industry. The British joined the Common Market only 20 years later, and they are still not really convinced that they should use it.

And a third strategic motivation plays a growing role today, which is the insight that the relatively speaking small or medium-sized European nations

and their economies will only jointly be capable to stand up against the political, economic and financial weight of the future world powers.

The present European Union, if you look back on to the last 50 years, has seen a very gradual, piece-meal -evolution, and of course we have met several crises on the way; five or six major crises, economic crises as well as political crises between participating governments. But we have been able to master these crises because of the national political leaders that, time and again, honored the aforementioned three major strategic considerations. In the end, they honored the strategic interests and overcame the tactical interests of today and yesterday. Some of the political leaders in Europe needed quite some time until they understood and until they accepted the strategic goals were in the best of their national interests. Only the British political class - until yesterday at least, but not necessarily until tomorrow - had some difficulties to understand that the regional European group was in the best strategic interest of Britain.

One of the major obstacles during the growth of the European Union was, and still is, that stubborn resistance by farmers from all points of Europe. European farmers still believe they need to be protected from competition and in this they are supported by opportunistic politicians who believe they depend on the voting power of the farmers. And parallels can be traced not only with the United States but also in the Mercosur member countries. Another major obstacle in the last fifty years was, and still is, the fact that the European Union started out as a purely bureaucratic entity formed by national governments and national bureaucracies, and even today it still feels a lack of

democratic and parliamentary controls. And therefore the voters still look at it with some suspicion, a certain wariness, because the people have no role to play within the European Union. And this is the impression of how people look at this Eropean Union.

On the other hand, private enterprises, privately-owned financial institutions, are more internationally-minded than the electorates in our states and they are even more European-minded than most of the politicians in our member states. And maybe you are going to see some similar experiences in Latin America as well. And governments and their bureaucrats every time find it very difficult to give up their prerogatives, to give up their little Principalities and their competencies and hand them over to the EU or hand them over to Mercosur in the future. They need to be pushed and shoved every once and again.

I guess you will meet some similar phenomena in Mercosur in the future. You will almost certainly need a common bureaucracy for Mercosur. Mercosur is a rather young entity as vet, It will have to grow and, if you want it to grow, you will need the people to manage it, and they will be bureaucrats. And they will be made up from national bureaucracies and they will need time until they become Mercosur bureaucrats in their mind and soul, rather than remain Argentinean or Brazilian or Chilean or whatever tional bureaucrats. We have seen that happen in the EU. If in the future you, as Mercosur, have to negotiate with the U.S. or to negotiate with the EU, or the World Bank or the WTO, or the IMF, you will need somebody who does the negotiations for Mercosur and he will need a Mercosur legitimization and not a Chilean, or Brazilian, or Peruvian legitimization, and he will need a staff.

So, please be aware of the probability that the future common Mercosur bureaucracy can or could be as cumbersome and as imperialistic as we see it in Brussels or as cumbersome and imperialistic as anybody's national bureaucracies.

It is because of these agricultural factors and bureaucratic factors that the goal to conclude negotiations about a free trade agreement between Mercosur and the EU by 1999 does appear to me to be very ambitious. One should not be too ambitious and too optimistic because then the disappointments afterwards will hinder further progress. On the other hand, one should certainly not give up and abandon the idea even in the case that these negotiations may take some longer time.

It seems to me much more likely, as regards the year 1999, that by the beginning of that year we will see the start of the common European currency called Euro. Despite all the published criticisms by populist and by publicity-driven politicians and even by some professors of economics - they are no better than the politicians - it would need a demotion of the French president or of the German chancellor between now and May next year in order to let the common currency collapse before it has been launched. Otherwise, you have to calculate with its coming to existence by the first of January 1999. Such demotions of Jacques Chirac or Chancellor Kohl seem almost totally unlikely. But let's even assume that they have a probability of up to ten percent or so, the likelihood of the start of the euro, which will finally be decided in May next year, then is more than 90 %. And to be complete, in the most likely case, I am personally 100% convinced that the euro will become a well-functioning currency, more stable in its exchange and of the same stability of domestic prices or so-called inflation rates, as the hitherto Deutsche Mark. I am 100% convinced that this will happen once the common currency is implemented. And I do have two reasons for my twin stability progno-The first one, as regards the exchange rate stability, the gross national product of the present fifteen member states of the EU together, which the euro is representing, will be of the same order of magnitude on the world's markets as the U.S. dollar. The population of the EU will be considerably larger, the currency reserves behind the euro will be around six times as large as the currency reserves behind the U.S. dollar, and within less than three or four years or so, the euro will have the same order of weight in the world's markets, or parts of the world's financial markets, as the United States dol-The European Central Bank will be strong enough to out-balance the dollar, whose unhealthy exchange rate volatility will become thereby a matter of history. Hopefully, it will also decrease speculation in currencies.

Secondly, as regards stability of prices, domestic prices, or as regards inflation rates, my confidence is based on the total political independence of the members of the European Central Bank. For instance, they cannot have a second term. Which means it does not make any sense for them to play to the ears of somebody who has the potential to re-appoint somebody, there is no incentive to play to the ears of any political authority. But much more important of course is the clause in the *Maastricht Treaty* which forbids the European Central Bank from making any credit available to any government of the member states or to any regional or local authority within the member states

or to make available any credit to the commission employees. You will keep in mind, you will remember, that this highly important clause sets a full stop to hitherto habits of quite a few European governments, also Latin American governments, who used to finance part of their fiscal deficits by letting their central banks print fresh money and hand it over in the form of credit to the government. This is the reason why I believe that the domestic prices inside the European Union will be very stable once euro has been put into place. Now the practice of printing money in order to finance state deficits is still being maintained in quite a few countries around the world. In Russia, for instance, and also in China, although to a lesser degree. It has been a habit in many countries of the world, including quite a few Latin American countries. For the future well-being of Mercosur, the monetary behavior of Brazil, of Argentina and Mexico will, in my view, play a very important role. And maybe this goes far beyond classical trade policies.

I believe that the monetary behavior will become more important than any new trade negotiation. If inflationary practices are maintained, then the uncertainties about the future exchange rates of the respective currencies will go on and so then will the sickness of speculation of the money markets and the capital markets, both short and long-term. At present, speculation and predatory capitalism are spreading alongside with globalization. We have never seen such a degree of speculation. It will rather likely be somewhat dampened inside the European Union in the future, not necessarily so in other parts of the world, including Latin America.

As regards Europe, mass unemployment is the overriding problem in Europe, and not inflation or price stability. Unemployment is, by far, the greatest dan-

ger, by far the greatest challenge. And this will remain so in the beginning of the next century as well. The Europeans will have to understand the twin necessities of regulation in general and of cutting extreme welfare state benefits. They have great difficulty to understand these two necessities; and if they understand them, they will have great difficulty to say this to their nations and then do it. Having said this, it seems very unlikely to me that the continental European nations, as regards deregulation and cutbacks in extreme social benefits will go as far as Ronald Reagan or Margaret Thatcher in America and in Britain. European nations will not permit the development or the formation of a new underclass of the working poor. This goes against the European economic traditions, culture, civilization, whatever you call it. And this makes things so difficult for the political leaders. It appears to me that the Netherlands are farther ahead in renovation than the great majority of the European member states. But at least the political leaders of most European Union countries are by now aware of the dangers. They lack concepts so far about what to do. So far, some of them have been fiddling and maneuvering around, sadly enough, and this may have negative influences on the actual Mercosur-EU negotiations because European governments will be told by interest groups that if they agree with Mercosur, on this or that, it will lead to additional unemplayment in my country or that country and so on. It may have negative or at least dampening effects on the ongoing negotiations. It seems obvious that you on the side of the Mercosur as member countries, you are going to meet enormous social problems. You will have to meet them all the time. As a European, I do not feel entitled to judgments on Latin American ways and on the economic and development policies inside the Mercosur countries.

Suffice it to say that the confidence of European political leaders vis-à-vis Latin America will, to a great extent, depend on the degree to which the political influence of the military will stand back and it will depend to a great extent on whether or not corruption can be stamped out. Some businessmen in Europe - so far I talked about the political leaders - not feeling the same weight of political responsibility, may be more tolerant but also in the future the businessmen will not make the political decisions, neither in Paris nor in Brussels nor in Bonn nor elsewhere in Europe. Political decisions will be taken by the political leaders and by Parliament. Having said all this, ladies and gentlemen, I would like to, in the end, state my well-weighed, wellconsidered conviction. Number one, that Mercosur has a good chance, young as it is at present, to develop gradually into an entity of major importance in the world economy. Secondly, that Mercosur will not permit Latin America to be turned into a colony of American or European or Japanese capitalism. And third, that economic exchange and trade between Europe and South America will grow and prosper on the basis of equality and mutuality.

Born in Hamburg in 1918, Mr. Schmidt holds an M.A degree in Economics from the University of Hamburg. In 1946, he became a member of the Social Democratic Party (SDP). In 1949, Mr. Schmidt jointed Hamburg State Administration as Economic Counselor and in 1953, became Head of the Transport Department in the same Administration. From that year onwards, he

held several posts in Government as well as in the SDP. Below, some of them:

> 1961 – 1965: Senator for Internal Affairs in Hamburg

1965 - 1987: Member of the Bundestag

1968 – 1984 : Deputy Chairman of the SDP

Parliament Party

1969 - 1972: Federal Minister of Defense

1972 - 1974: Federal Minister of Economics

and Finance

1974 - 1982: Federal Chancellor

Since 1983, Mr. Schmidt has been the Publisher of the German weekly magazine DIE ZEIT.

Diego Ramiro Guelar

Argentine Ambassador to the U.S.A.

"Mercosur - A Political Reality"

After this excellent lesson in international politics that Chancellor Helmut Schmidt has given us, it is up to me to speak in Spanish and return to the South Atlantic dancing to the rhythm of the tango. I say tango rhythm, because Marcos, who preceded me, spoke in the rhythm of the samba. As you know, the tango has some different characteristics, culturally speaking, from Brazilian music. The Brazilians say "please sadness, please go away", and we on the other hand call upon sadness, we sing to cry and we dance with sadness.

It is exactly because of this cultural conflict that exists between Brazilians and Argentines that I am less optimistic than Marcos. Less optimistic in relation, first, to the past, because Marcos said that there had been no confrontations. Well, there were wars a long time ago, but confrontations now, I think yes, I think we have had belligerent relationships so to speak. And this is even more serious because when, at the beginning of the 50's, we began to invest a lot of money to

do research into atomic energy, and both Brazil and Argentina have the technology for such, we were not, I believe, thinking of creating an atomic bomb to dispatch to China, to the United States, to Europe, etc. Therefore, in terms of threats of war in conjunction with programs for the construction of atomic bombs, it is obvious that the destination of any Argentine bomb would be Brazil and the destination of a Brazilian bomb would be Argentina.

That is why I appreciate the diplomatic and friendly value of Marcos's words, and I thank God that common sense in the first place, and the presidents of Brazil and Argentina, Sarney and Alfonsin, in the second place, decided to sign a definitive peace agreement between Brazil and Argentina in 1985, therefore putting aside the threat of war to move into the territory of cooperation and working together. The two Presidents launched a process that was exemplary for the whole of Latin American, because precisely in Novem-

ber of 1985, eleven years and a few months ago, all the countries of Latin America lived under the threat of war between them: Brazil with Argentina, Brazil with Bolivia, Bolivia with Chile, Chile with Peru, Ecuador with Peru, Colombia with Venezuela, Venezuela with Brazil, in short, all these countries were living under the threat of war. We were, so to speak, a continent with a history of authoritarianism accustomed to living with the sword pointed at others. Brazil and Argentina, are a good example, We built no bridges to span the rivers that separated us; we had legislation that banned, for example, a Brazilian from buying land on the border and viceversa. We jammed radio broadcasts to avoid and to prevent cultural penetration, and that was yesterday, just eleven or fifteen years and yet now, since 1985, we have made extraordinary progress. It is in view of this that Marcos's tone is optimistic, and which I now choose to follow, because we have put an end to this story. We have stabilized the countries politically and economically and we have begun a wide-ranging and profound process of integration, which is an extraordinary task.

But, of course as I look at the name of the program, I see that it is up to me to discuss: "The Mercosur as a political project." We have to be prudent. We know where the differences lie, and perhaps sometimes even confrontations that may have to do with the FTAA and with Mercosur. There is a whole series of differences within Mercosur with regard to free trade. Mercosur is an instrument intended to eliminate our internal borders. The integration project is one in which the historic nationalist and liberal trends in each of our countries converge in their opinions. It is not a free trade project, it is an operating necessity. We have to remove the barriers between us. That is why we must have free

internal trade, and in establishing this we also learn how to conduct free trade with the world outside, together or separately. That is the question we are facing now for the future and we have to do something beyond mere criticism. When we created Mercosur we saw that we had an aggregate GDP of around US\$1 trillion, which cannot compare with the US\$ 7 trillion of the United States or Europe, but is an interesting proportion compared with that of Russia and even more so with that of China. The United

States exports more to Brazil than it does to China for example, and imports more from Argentina than from Russia, which proves not that we are an imperial super power, but that we have solid bases for acting signifi-



cantly at a regional or even international level. Yet it is obvious that all this can only be achieved through a series of actions. It is not enough to dismantle our internal borders, and at this point I am going to reply to Marcos's optimistic version, not by being pessimistic but with a cautious view in regard to what we hope for from the future. We do not create integration just by adding things together. Integration also results from solutions to internal conflicts. Internal conflicts may exist within the region, and it is possible that one region or another feels threatened in regard to its historic privileges. Now, with Brazil and Argentina this is a reality that creates new things. We therefore create certain problems, in that way, because in

showing our scabbard we have to say that there is a sword inside it, because otherwise, we could not act.

This integration, therefore, is not just a voluntary project. It is not just a question of showing the common will to be united and to leave behind political confrontation. On the contrary, we need to push ahead, operationally, so as to overcome the challenges. Crises, little by little, show us how to get out of them, teach us lessons. For example, now we have a crisis, there is some disgareement as to the constitution of the UN's future security council, there is a major sectoral crises too with regard to sugar, there is a series of small crises, but what do these small disagreements mean? That there is a crisis that can be surmounted, or that there is an essential crisis within Mercosur? I am referring here to Marcos's optimism; what we are seeing now are growing pains. We are learning and now that we have managed to make the political coordination functions work, then the macroeconomic coordination functions as well. All this is to say that we are aware that we have to move forward. President Fernando Henrique Cardoso and President Menem presented three new propositions to the respective Houses The three propositions to strengthen Mercosur are: a single currency, a common defense policy and shared citizenship. It is therefore, a highly political project, for which reason the internal agenda of Mercosur is highly political, eminently political, whose instrument is a form of integration that is not just commercial but also cultural and political, with a unification of the parties, with macroeconomic and political coordination, and a whole series of instruments for institutionalizing the Mercosur, And exactly as chancellor Schmidt said, there is a danger of creating too much bureaucracy, yet bureaucracy is necessary, we have to build a team, an organization with an establishment, and a staff.

These are the challenges we have to meet, and we have to make progress from the legal standpoint. Naturally, in Argentina's 1994 Constitution, we have already taken a step forward, because for the first time, after a good deal of suffering because of certain delays, because of the tragedies we have suffered, we now know that we form part of a common pact, and this was inserted into our constitution, and therefore, integration treaties henceforth take on a role similar to that of our constitution. It was a legislative proposal, it is a proposal for an Argentina that is building a new political, social and cultural entity together with its neighbors. It is a proposal for building a real nation of nations. I believe that this is the real and true project that we are building now. We have a few instruments in this field, and I have not the slightest doubt that the destiny that awaits us is an extraordinary one. All the internal growth rates, and rates of investment in the region are extraordinary, and this is very representative, today, for the Foreign Ministry and for the national government, taking into account the hegemony of interests. Here, in front of all the Brazilian representatives, I truly believe that it is necessary to repeat that whoever invests in Brazil, is investing well, because he is investing Mercosur, in this new project that, without a trace of doubt, will lead to growth. And this is a guarantee of the success of our program, both for Argentina and Brazil.

For the first time, we are seeing clearly and we are saying out loud that the destiny of us Argentines is intimately linked to that of other nations. It is not possible for a nation to win, to be victorious, if other nations fail. The victory has to belong to all. We are con-

vinced that this common destiny will have to be built by working well and making everything work well within our countries, and secondly, by building together these guarantees of a successful future. We shall have to do this and that is why we are here. There may still be a list of debates, of points to discuss, of issues that no doubt exist between us. The newspapers often talk of crises, crisis in Mercosur, that Mercosur is finished. I worked as a representative to the European Union and I frequently realized that the press was often mistaken and presented a catastrophic view. But I am certain that this will not happen. On the contrary, we shall build an even stronger partnership. The government, the people that have lived through the situations we have lived through, as conflicts, know perfectly well what needs to be overcome. Today, we know what the bilateral trade that exists between our two countries is. We shall undoubtedly multiply it, increase our relations more than twofold or threefold. We know perfectly well what it is to have common regional thinking and we will move forward in creating the institutions for it. We shall have a court of justice, we shall have institutional bodies of this level, we shall have Mercosur parliamentary commissions precisely to ensure that we have that which Chancellor Schmidt referred to a while ago. That is to say, we will have democratic control of a process of integration for the healthy maintenance of its institutions.

I would now like to thank the Chairman of the Forum of the Americas, Mr. Mario Garnero and also the Principality of Monaco for their hospitality.

Born in Argentina in 1950, Mr. Diego Guelar is a lawyer and a career diplomat. Since the beginning of 1997, he has been the Argentine Ambassador to the United States. The following are some of the posts Mr. Guelar held in the public sector:

1996/1997: Ambassador of Argentina to Brazil

1989/1996: Ambassador of Argentina to the European Union

1984: Vice President of the Budget and Fi nance Committees of the House of Repre sentatives; Member of the Committees on Finance, Constitutional Affairs, Foreign Af fairs, General Legislation and Impeachment.

Mr. Guelar was Director of the Department of European Studies, University of Manage ment and Social Sciences - Buenos Aires, Argentina (1987) and Vice President of The General Assembly of IRELA (Institute on European/Latin American Relations (1987).

Michel Pastor

President, Maison de L'Amérique Latine - Monaco

"Monaco, E.U. and Mercosur - The Private Sectors Role"

Your Excellencies, Mr. President, ladies and gentlemen. Mr. Mário Garnero has asked me to speak in my capacity as president of the Latin America-Monaco Chamber, on the private sector, the role of the private sector in Monaco, in the European Union and in Mercosur.

In fact, the image that public opinion has of Monaco is based on certain clichés. Many think of the Principality as somewhat distant from reality, but any businessman knows differently; he knows that this is not true. The Principality offers stability, it has an excellent economic environment, top-rate communications networks, a significant banking sector and is developing various activities in several well-organized sectors. The Principality of Monaco is a member of the United Nations Organization, and has diplomatic representation through its embassies and consular networks in the principal countries of the western world. The Principal-

ity of Monaco enjoys a privileged position with regard to the European Union. Thanks to agreements between the French and the Monegasque, Monaco is under the same customs regime as the one in France. The two countries constitute a customs union, and no restrictions on circulation of capital have been in force since January 1st 1990. The Principality of Monaco is part of the European Union's customs union, even though it is not a member country of the European Economic Community. In 1996, the flow of trade between the Principality and the member countries of the Union came to more than 2 billion francs.

As for the position of the Principality with regard to Mercosur: it does not have one; so far there has been no agreement between our countries. In 1996, the flow of trade between Monaco and the countries of Mercosur came to more than 25 million francs. I would like to place the Principality within the framework of an

international strategy: the Principality is a point, a cross-roads for an international strategy, and in spite of our small size, we have advantages that many people are often not aware of. Advantages such as the business environment, the geographical location, and dynamism are quite real. Let us set aside the tax benefits for the moment and we shall return to speak of them later.

As regards the geographically advantageous location, we are indeed a fantastic strategic point, facing south, to Africa, to the Mediterranean, yet Monaco is also a point of connection with the north. Monaco is less than two hours away by air from all the European capitals. It takes seven minutes to fly from Monaco to Nice airport by helicopter. The Principality has organized telecommunications services: Monaco Telecom broadcasts and receives images from anywhere in the world. As regards the political scenario, the Principality of Monaco enjoys enviable political and social stability, guaranteed by solid institutions and a well-established legislative and regulatory system based on consensus and on economic and social development. This year we are celebrating the 700th anniversary of the Grimaldi dynasty.

The economic dynamism of the Principality deserves a few words as well. For a long time, the Principality of Monaco has been very aware of its participation in the economy. The Principality's domestic economy is very sound. There is practically no unemployment, there are 700 companies, and 32,000 jobs, there are many more jobs created annually than the local population. As for the figures of the economy, around 10% of GDP is accounted for by light non-polluting industry with high added value. Some Monegasque companies are now multinational, leaders in

their sector, such as, for example, the cosmetics industry and the pharmaceutical industry. The well-organized public and private sectors provide the Principality with a lot of dynamism.

The dynamism of the public sector can be illustrated by the government's priority in 1996 to a new plan covering investment, processes and improved information, the creation of specific support for industry and trade, the preparation of economic surveys and the participation, application and implementation of a permanent system to this effect.

The Principality's efforts focus on industrial activity, individual and business tourism and the tertiary sector; 71% of the subsidy programs are directed at industry and 10% are aimed at organizing various activities to develop the country's tourism and culture. The government also involves itself in giving continuity to large-scale urbanization projects, with a budget of more than a billion francs a year. The current projects include an underground railroad station, which will allow tourists to move around better and will release four hectares of ground for local companies to improve the area and yield space for the construction of housing. A new exhibition and congress center is currently being built with an auditorium for 2,000 people and sophisticated technical equipment that, as from the year 2000, will allow the presentation of operas and international concerts. The port is also being expanded to be able to berth much larger boats and offer a more attractive structure, including a marine station.

As for the private sector, the Principality of Monaco enjoys a relatively diversified economy, which can be grouped into six main sectors:

1 – Trade, both wholesale and retail. The sales of this

sector account for around 40% of the estimated total of 36 billion francs, and are increasing continuously, thanks chiefly to the luxury goods trade and the installation in



recent years of various international travel agencies, such as Carrefour, Cazino and other firms.

2 Banks and financial institutions the banking sector represents 17% of the Principality's sales. Banking in Monaco is quite original in that, although it does not belong to the European Economic Community, it is integrated with the French customs and banking union, thus adhering to French guidelines established in harmony with European regulations. This guarantees reliability and safety. This specific situation has opened a new route for investment and, in particular, for Private Banking as well as for international trading companies. The world's leading banks and international financial establishments are represented in Monaco; there are more than forty such establishments.

The banking sector is expanding and currently is the thirteenth largest employer in the Principality. The Monegasque banking system is characterized by its discretion and reliability; it ensures confidentiality for transactions, while at the same time it takes part in the battle against money laundering; and this results from the 1993 legislation. The range of services runs from trading portfolio management to international trade credit operations.

INDUSTRY:

The industrial sector is the Principality's third largest economic activity accounting for 15% of employment and 10% of sales. The Principality's industry is non-polluting; it is mostly made up of sophisticated chemicals, pharmaceutical products, cosmetic production, electronics, and the transformation industry, chiefly plastics. Biotechnology and maritime businesses also find an exceptional place for development in the Principality. The construction and real estate industries continue to be one of the solid sectors in Monaco and offer real opportunities. They account for 8% of the Principality's sales. Innovation and dynamism are the features of the Principality's builders. Monaco adheres to the most demanding international standards in construction, particularly in the field of anti-seismic construction. We also have many liberal professionals: lawyers, accountants, and consultants. There are also various companies in the fields of information technology, transport and shipping.

TOURISM SECTOR:

Tourism is a major activity because of the number of visitors - more than 700,000 a year - and involves many four-star hotels. As for international tour-

ism, Monaco is very sought to tourist destination. Besides normal tourism, there is also business tourism. In terms of life quality: the climate is very pleasant, the beauty of the views is a very well preserved heritage and Monaco offers exceptional life quality, with a wide choice of housing, both within the Principality and in the neighboring areas. In fact, everything is guaranteed for people to enjoy a pleasant stay, for people to have a very efficient police service and permanent security within the territory. The Principality also offers top health care services through its hospitals equipped with the most advanced instruments and through its cardiology center staffed by renowned international teams.

CULTURE:

The Principality offers opera and concerts. It has a high quality, international level education system. It organizes events such as the sculpture Biennale and the springtime of the arts. There is a whole series of activities and top-notch sports facilities for golf nautical activities. We also hold the Monte Carlo rally, tennis tournaments, and our soccer team, which has been playing for years at the top European level, has just won the French championship. There are also the special characteristics of the taxation system, such as the absence of income tax. The Principality's tax system is a mild system, that is to say, its moderation favors the dynamism of the economy, and gives flexibility to private enterprise. The only direct tax is on the profit of industrial and commercial activity. The Principality thus discards all the other types of taxes that exist in other countries, such as, for example, a wealth tax, value added tax, property tax, etc.

CHARACTERISTICS OF THE MONE-

GASQUE TAX SYSTEM:

I would like to draw your attention to four principal points: taxation of individuals, of companies, the taxation of capital and its transfer, and the taxation of consumption. The taxation of individuals in the first place: all individuals resident in Monaco who are not of French nationality are exempt from income tax, from any Monegasque taxation on wealth, property tax, and land tax. There is a special tax situation for French citizens resident in Monaco; this is governed by the 1993 tax treaty signed between France and Monaco, the sole tax convention of its type that exists. People of any nationality other than Monegasque or French are not subject to income tax or wealth tax. Nonetheless they may be subject to income tax and wealth tax on account of the tax legislation of their countries of origin or on income arising there. Besides this, income from Monegasque sources paid to individuals who are not resident in Monaco is not taxed at source

CORPORATE TAXATION:

A profit tax is the only direct tax charged by the Monegasque government. The SBE was introduced into Monegasque law at the beginning of March 1964. In 1996 there was a change: the tax on income has been 33 and 1/3 percent since January 1st 1993; however, various deductions can be claimed on the taxable profit, in particular as regards the remuneration of directors that exercise a function within the company compatible with these parameters. Besides this, the specific rules applied to the amortization of capital and fixed assets also constitute a major attraction both for companies and their directors. We should say that

the tax only covers part of the state's marginal income, and it is also interesting to note that tax legislation in Monaco makes no distinction between the legal operation of listed companies and that of private companies, nor any distinction with regard to the nationality of any company, whether it be a Monegasque company, a Monegasque branch or a foreign company established in the Principality. Companies located in Monaco are classified within one of the following categories: companies, whatever their mode of operation that exercise an industrial or commercial activity within Monegasque territory, and the sales of which amount to 25% of the operations carried out directly or indirectly outside Monegasque territory will be taxed. On the other hand, a Monegasque company that makes more than 25% of its sales inside Monaco is not subject to this ISB tax. As to the granting of patents, trademarks, and copyrights, companies receive the following tax treatment: Monegasque tax legislation lays down specific tax provisions applicable to administration offices that are taxed in accordance with their operating expenses at the rate of 2.66%.

The taxation of capital and the transfer of capital; once again we are talking of a moderate tax regime. Taxes are mandatory on certain transfers, such as, for example, certain registrations on which there are fixed and proportional rights. An example of this is the tax of 6.5% on the transfer or sale of property, land or buildings. Acts in respect of the formation of, or increase in, the capital of a company are taxed at 1% on the total amount of the assets. Shares and debentures issued or subscribed by a limited company are taxed at 0.5%.

Inheritance and gifts: a special tax may be payable. These are rights of registration that are in proportion to the wealth transferred and are exempt from

all inheritance tax on assets passing in the direct line or between spouses. Other gifts on death, of the enjoyment of chattels or real estate are taxed on the basis of 8% in the case of brothers and sisters and in accordance with another proportional tax if there is no family relationship.

Consumption tax: VAT is the Principality's only indirect tax. Article 15 of the 1963 French-Monegasque taxation agreement provides that taxes on sales and indirect contributions will be calculated and applied in Monaco in accordance with the same parameters and rates used in France. In practice, changes made in France are applied immediately in Monegasque territory because the Principality of Monaco's customs union comes under the European Union's customs regulations, and thus, it applies all the EEC's regulations in terms of taxation. The VAT on products and services is 5%.

In conclusion, if you head a group that wishes to: 1) export to Europe, and to penetrate the Mercosur market; 2) form an association with a company in the European Union or Mercosur; 3) centralize the management of your group in one country; 4) improve your asset management by finding a country where taxation, both nationally and professionally is low; and 5) combine business and pleasure, come to Monaco and spend a few days here as a tourist or as a businessman because Monaco could well be your ideal location, your best strategic choice. Monaco will not provide solutions for all your problems, but we can help contribute to your international management in the best possible way. It is in this context that we wish to make Monaco known as an acknowledged, international level professional location for privileged interchange. The outlook is excellent, the climate very agreeable, the cultural and sporting events numerous and of high quality, and

Monaco.

the geographical location is unbeatable. And, let us not forget, above all, we offer a highly attractive tax system as I have just described. In Monaco, undoubtedly, companies from Mercosur will have direct access to the European Union, without customs barriers and with the very attractive tax advantages that I have mentioned.

Michel Pastor, 54, was born in Monaco. He holds a degree from Geneva's Ecole de Commerce. His professional activities include the following:

Monaco:

President of the Association of the Mon
egasques: Pastor Real Estate Center (real
estate management and transactions).
La Résidence (real estate rentals)
Le Colisée (real estate rentals)
Rigel (real estate rentals)
Du Parc (Construction Company)

In France:

President, Financière Hédiard S.A.

Vice President, John Taylor S.A. (Michel Pastor Group)

Manager, Societé Nouvelle PEAU

Mr. Pastor is President of l'Association

Maison de l'Amerique Latine de Monaco,

Monaco's Latin American Association, and a member of the UNESCO Commission at

Stanley Au

Chairman, Delta Asia Financial Group - China

"China and Brazil - A Cooperation for the XXI Century"

I feel like a sinner going to confession here, because I have to admit that I am not an expert on Brazil. Also, to be frank, although I often travel to other countries around the world, I have never been to Brazil or to any other country in South America. Perhaps, I should explain why I have never been to these countries. First, because they are too far. Second, because it's too expensive to go there.

Trade between Brazil and Hong Kong accounts for a very small part of Hong Kong's trade. What I know about investments and trade in the People's Republic Of China dates back to the early 80's, when China began opening up after the reforms in 1979. Ever since then, I have been very active in terms of threeway trade between China, Taiwan and Hong Kong. When I was preparing this presentation, I resorted to multimedia information and to libraries. I was originally asked to speak on China and Brazil, but I have added

some elements that refer to trade and investment opportunities in China. Therefore, I will now talk about China and Brazil, and trade and investment frontiers that still need to be explored.

Because Latin America is far away from Asia, it is little understood and not much noticed by Asian businessmen. To most Asian businessmen, Latin America is the poor cousin of North America and is troubled with high inflation. In fact, Latin America has re-emerged from the 1980's Crisis Year as a New Growth Frontier. Inflation is now largely in the single digit levels; this yearly average was often the daily rate of inflation before 1990, in countries like Brazil. Growth is moderate but steady, also within single digit levels. International trade and foreign direct investment is surging, often at double-digit rates; spurred by economic liberalization and dramatic falls in tariff and non-tariff barriers.

Once again for the same reasons, that

is because of the distance and the lack of knowledge of Latin America, Asia has failed to capitalize on this boom. Less than 10% of Latin American imports come from Asia, mostly Japan. By contrast, half of all imports come from North America alone; with an additional 20% from Europe. Exports reflect imports, in terms of regional destinations.

China's trade statistics mirror the low volume of Asia-Latin America trade: only 2% of China's exports and imports come

from Latin America, with Brazil accounting for the major portion of each. Again, as evidence, one can note Hong Kong's total trade with Central and South America (including Chinese re-exports and imports) has only now reached the US\$ 6 billion mark; yet Hong Kong's total trade volume exceeds US\$ 300 billion.

These days, more and more Asian businessmen are looking outside of their traditional markets for opportunities. Many of them have now discovered Latin America. Out of all these countries, Brazil is the largest Latin America market awaiting Asian penetration.

Brazil is now a major emerging market, and the eight largest economy in the world, with Gross Domestic Product reaching US\$ 800 billion, roughly equal in size to that of China. No other country in the region exceeds the US\$ 100 billion mark in output; in fact, Brazil's share of the world Gross Domestic Product, is approximately the same as that of the rest of Latin America.

Market fundamentals in Brazil are rela-



tively sound, with annual output growth averaging 4-5%, and inflation hovering around the 6% mark; as recently as 1994 inflation totaled almost 100%; formerly, inflation rates of 2,000% were recorded;

Trade favors imports over exports, so that the current account balance is negative, though manageable, given the strong inflow of foreign direct investment.

Trade growth is assisted by a radical revamping of Brazil's tariff policies, and that of its

immediate neighbors, now members of a Southern Cone Common Market, Mercosur; along with relatively high per capita national output levels (US\$ 3,500 for Brazil; and US\$ 5,000 for the Mercosur Common Market); the most common applied tariff rate is now 14%; products of interest to Hong Kong SAR and China, generally, are typically levied tariffs of 15-20%; as recently as 1990, typical tariffs averaged 20-105%.

Overall, Brazilian trade now exceeds US\$ 100 billion per year; with considerable potential for growth, given that this represents only about 15% of Gross Domestic Products.

Though starting from a very low base, trade between Asia (excluding Japan) and Brazil is growing at a rapid rate; for example, Brazil's trade with Hong Kong (which consists mainly of re-exports from China) has grown from about US\$ 200 million in 1990 to US\$ 1.6 billion today; similar growth rates have been experienced in trade between Hong Kong and Mercosur.

Potential Hong Kong trade with Brazil is

still enormous, since it represents less than 2% of Brazil's exports and imports; and Brazil is ranked as only 20th in Hong Kong's trade partner statistics.

With Brazil being such an enormous country with 150 million people and about 800 billion dollars in GDP, what are its investment opportunities? Like China, it is a powerful magnet of foreign capital. Aside from trade opportunities, there are direct foreign investment ones as well; cumulative investments exceed US\$ 50 billion in Brazil alone.

Asia, however, benefits little from this market; among the top ten exporters and importers to Brazil, only Japan is a noticeable contributor, though China is an emerging force - as the eighth largest exporter to Brazil.

In terms of cumulative foreign direct investments by country of origin, only Japan is represented among Asian countries, and its share is less than 10% of the total.

Now let us ask a question. What can China do in Brazil, this unexplored frontier? For China there is considerable scope for additional trade and investment in Brazil. Brazil is a major exporter of agricultural products; though the bulk of exports - measured in US\$ terms - are in manufactured items. Brazil is also a major producer and potential exporter of mineral wealth.

Using Hong Kong trade statistics, it is clear that Brazil has a strong comparative advantage in exporting food products and natural resources to Asia; in turn, Brazil is a manufacturer of telecommunications equipment, toys, games, sporting goods, plastic articles, footwear, watches and clocks, household appliances, and, increasingly, machinery and parts.

Given Brazil's relatively liberal foreign investment environment, considerable opportunities exist for countries such as China to directly invest in Brazil's agricultural, mining and infrastructure sectors and to export output to Asian markets; at present this opportunity is mostly unexplored.

Now let us ask another question. What can Brazil do in China, another unexplored frontier? China may also present new opportunities for the Latin American market. China is the world fastest growing country, consistently growing at 9-10% a year; its demand for imports is enormous. China is set to transform its state-owned enterprise sector (SOEs), opening foreign investment possibilities across much of the non-agricultural economy and excluding only strategic subsectors such as those linked to national defense.

China has the largest infrastructure investment program in the developing world, amounting to up to US\$ 1 trillion over the next decade. As an example of the scope of this infrastructure program, one can cite the Three Gorges Dam on the Yangtze River's central area. The Dam will stretch 2 kilometers across, soar 185 meters into the air, and create a 660-km-long reservoir in central Hubei province; electric generating capacity will total 18,200 megawatts. Total investment, including financing costs, will exceed US\$ 30 billion. Construction and engineering services will be required; as well as large-scale procurement of equipment, including 26 water turbine generating sets, each with the capacity of 700 megawatts.

While developed countries will reap the bulk of related contracts, developing countries with experience in hydroelectric power generation (including Brazil) could benefit by teaming up with suppliers

from other countries.

Having said all this, it is very obvious that there is a lot of synergy for China and Brazil to work closely together. It is up to businessmen from these two countries to explore the potentials. These mutual opportunities can only increase further over time, as both China and Brazil grow faster than the rest of the world. The World Bank projects that China's Gross Domestic Product will increase from 1.7% of world output to 4.3% by the year 2020; Brazil's output will grow from 1.7% of world product to 2.5% by 2020. As a result, their share of world exports should double during that time span.

As we all know, Hong Kong is the gateway to China. In handling China's international trade and foreign direct investment activities, Hong Kong has a proven capacity to act as an intermediary:

There is an increasing trend for Brazilian and Mercosur companies to directly place orders from their foreign suppliers; this practice creates business opportunities for Hong Kong through offering trading services to these buyers; Brazilian - and Mercosur - importers lack business connection in Asian markets such as China; they rely heavily on trading companies to monitor product sourcing, shipping arrangements and product quality control; these services Hong Kong can provide.

The banking community, in both Brazil and Hong Kong, and Latin America and Asia, generally have a large number of financial intermediaries with proven capacity to finance international trade; yet, to date, trade is financed largely by third-party countries; Hong Kong banks are invisible in Brazil or Mercosur and vice versa.

Basic links, such as direct airline service,

are lacking; travel time between Hong Kong and Brazil is still twice that to Europe or the U.S. Pacific Coast; this could be cut in half.

Trade is also hampered by severe constrains where a common trading language is concerned; for example, in Hong Kong, few companies have the capacity to deal with Latin American partners in their native Spanish or Portuguese, whereas few South American companies feel comfortable doing business in English alone.

Before I drag on too long and get all of you bored, I better sum it up. Measured by potential opportunities, trade and investment activities at both ends of the market leave much scope for improvement; nevertheless, this China-Brazil connection is the world's next great business story; once it could be labeled as merely promising but distant, now it is a reality that the international community ignores only at its own peril.

Mr. Au, 56, is a banker with more than 35 years of professional experience in the area. At present, he is Chairman of Delta Asia Financial Group, a banking and financial institution based in Hong Kong and Macao. He was one of the pioneers of the merchant banking concept and set up the international gold bullion market in Hong Kong in the early seventies.

In 1993, Mr. Au was elected to the Board of the Hong Kong Stock Exchange and in 1996 was reelected for another three-year term. Mr. Au's achievements in the finance industry have earned him international recognition from the British newspaper "Financial Times" (1976) and the German magazine "Das Kapital" (1977) as one of Hong Kong's most successful financiers.

Rubens Barbosa

Brazilian Ambassador to the United Kingdom

"Brazilian Economy, Real Plan, Stabilization and Privatization"

The organizers of this conference asked me to speak about the Brazilian economy, the Real Plan, stabilization and privatization. I think it is about time. This morning, we heard about investment opportunities in Monaco, and so far we have heard little about Brazil. I am going to make a presentation without going into great detail because you are going to have at least four presentations, from a director of the World Bank, from Minister Eliseu Padilha, from Congressman Inocêncio de Oliveira, from Secretary Emerson Kapaz, who will go into more detail about what I shall present as an overview.

First, I would like to emphasize that, in these last seven years – and above all from the Real Plan onwards – Brazil has been gradually transformed. Today, Brazil is a new country compared with what it was at the end of the 80's. Internal reform measures have gathered speed. We have implemented consti-

tutional reforms over these years to allow for the opening up of the economy, deregulation, legislation for the granting of concessions for public services, the abolition of the distinction between foreign and Brazilian companies – which are now on the same footing with regard to investment in Brazil – the end of market reserves, the end of monopolies.

All this has represented a major transformation in the Brazilian economy, in the way business is done in Brazil and in the way to invest in Brazil. Now, after seven years, we can see significant results - such as the performance of this economy - coming from these significant, important and structural changes to the Brazilian economy and society. I am not going to tire you with numbers, but the inflation figures have already been mentioned. From almost 40% a month in July 1993, inflation has come down to less than 6% in 1997, and will be still lower in 1998. The economy has

enjoyed sustained growth at higher rates than in earlier years. These recent years of growth in the 3.5% - 4% range may not have been at the same level as China, but it has been sustained growth and is on a rising trend.

The level of foreign reserves, which for us is essential as a defense of the economic policy that Brazil has been following, continues high. Foreign trade is on the rise. In short, all this macroeconomic data clearly shows the path that has been followed in these



last few years. And this path reveals growing opportunities for foreign investors, both in terms of business and investments. And in the conversations I have had in London, I always ask why Brazil? If China is growing at 9% to 10% a year, if Asia until very recently was a great attraction, why is Brazil still so little known? The picture painted by our friend from China is the same one that we hear in Europe. There is a substantial lack of awareness in regard to what is happening in Brazil. So, why Brazil, and within this general lack of awareness, why is Brazil now the investment target and why is it attracting business?

I think we can answer this by highlighting two aspects.

First, political stability and second economic stability. Political stability has been a major feature of the situation in Brazil in these recent years . Following the return to civilian rule in 1985, Brazil has been through a tough proving ground to demonstrate this political stability. It has been through the reaffirmation of growing democratic principles, through several important elections, and next year we shall once again demonstrate this consolidation of the democratic process in the country. This political stability can also be seen in the great number of constitutional amendments that have been approved, with the significant cooperation of the National Congress. This is vitally important. On the outside, it is often thought that these reforms are taking place slowly, against the opposition of many sectors. Yet in a democracy, these situations are normal, and the Brazilian Congress has given essential support to the measures proposed by the Executive Power to modernize the country and bring it up to a level of competitiveness where it can occupy an outstanding place on the international scenario.

Within this framework of political stability, the reform of the state can also be underlined as a factor leading to this stability. The reform of the State in Brazil is a solid process. It is moving ahead gradually and with the support of Congress. I am certain that the most important reforms being debated in Brazil today and in the coming months will be approved, further reinforcing the country's political stability. The other aspect that I mentioned, which is highly important for foreign investors, is the question of economic stability. And here too we have shown that Brazil is seeking to implement it within the established goals, and this is an im-

portant aspect that must be emphasized. The guidelines and the direction of the economy have been very clear since the Real Plan. Perhaps in earlier years, other governments had also planned to reform and modernize the country, and to reduce inflation. Yet for a series of reasons, the way ahead was not defined. There will be opposition, there will be groups or parties that want to carry out these reforms in a different way, but nobody questions the direction that is being followed. And that direction will lead to Brazil's competitive integration into the global economy; the path is the confirmation of democratic values, and the reduction of the role of the State to its modern functions of regulation and guidance, rather than a State that interferes in production, that interferes in the private sector. So these two aspects, that of political stability and that of economic stability, give the investor - and this is important and that is why I mentioned these two aspects - the means to make projections, as stability is present in the economic rules and in the rules governing Brazilian society. The possibility of a second term of office, now allowed for Brazilian presidents, in the same way as in the United States, with four years plus four more, this too offers the prospect of a longer period of stability and consistency in terms of the policies that are being established.

In fact those that know Brazil also know something about the instability we have lived through in the past, the constant changes, not just of policies and rules, but of the people in government. This has disappeared. The rules are stable, people are stable and policies are stable. In this context, I have already mentioned the stability of the state as an important aspect of the reform process which the country is going through. It is important to mention two more aspects

that are producing business opportunities and investment opportunities. First it is the privatization process which Brazil has implemented since the beginning of the decade. Since 1990, more precisely since 1991, Brazil has been going through a major process of reform, giving priority to the private sector and with a great number of formerly state-owned companies moving into private ownership. This has been possible, as I have said, through the joint work of the executive and the legislative branches in approving constitutional reforms during the current Administration's first term in office. These reforms have opened up telecommunications, communications, energy, railroad, and coastal shipping sectors to the private sector. In short, the private sector now participates extensively in many sectors which had previously been under state monopoly.

The investment opportunities are there, and you, gentlemen, are following these major reforms, these great processes of putting state-owned companies out to tender. In some sectors, 100% of the former state ownership has been transferred to the private sector. This was the case with the steel and petrochemical industries and is now beginning with the telecommunications sector. The railroads have been totally privatized with great success. This year alone, the Brazilian government expects to obtain approximately US\$ 20 billion, and next year approximately US\$ 30 billion from these privatizations. The other sector that I would mention here is the infrastructure sector. We referred this morning to the question of Mercosur, of the expanded market. The next stage in the expansion of the market in the trading area is the improvement of infrastructure in general and above all of the highways, ports and communications. Approximately 42 projects are being

developed under a special program which is open to private sector participation. According to data provided by the Interamerican Development Bank, there is an estimate, within given conditions, that Latin America will require around US\$ 60 billion a year to be spent on infrastructure. In the case of Brazil alone, according to IDB data, some US\$ 23 to 24 billion will be necessary, and a significant part of this amount will come from the government - around 65% to 70% - but the rest will come from multilateral financial organizations, such as the World Bank, The Interamerican Development Bank, the InterEuropean Investment Bank and also the private sector, both from banks and companies. About 5 to 10% of this total - in the case of Brazil around 2 to 3 million dollars - should come from the private sector overall. What is the response to this? That is to say, is a new Brazil emerging? Is there real economic stability? What is the perception of the international business community?

After three and a half years as ambassador in London I have become used to accepting that, here in Europe, Brazil is still on probation. Many things we have done in the past are still alive and well in the minds of investors and for a few years to come we are still going to be called to account for things we did in the past. The Europeans ask whether the government will have a majority for each bill submitted to Congress. Each time a law is passed with a majority they ask whether the next one being promised will be submitted. They ask if we have a majority, whether the opposition parties will allow it, if the data we are presenting is reliable, whether it can be maintained, whether it will be improved, whether inflation will return. This is the price we are paying for a not too distant past, for certain

measures that were taken and which caused great repercussion abroad, both with regard to the external debt and the opening up of the economy. So I accept this state of permanent probation in which Brazil finds itself as a part of the problem. We are going to have to keep on showing the progress that is being made, we are going to have to try to change this perception of Brazil abroad. Yet, in my opinion, these changes to Brazil's image cannot be built upon government campaigns to improve the image, but must be based on changes in the real world. And this is what is happening. These real world changes are going to cause foreign investors and foreign governments to change with regard to Brazil, and this state of permanent probation will come to an end. In these last three and a half years in London. I have been able to observe, at least in the city, and among British companies, that a change in attitude has begun. Just as there is a gradual change within the country, over here there is a gradual change in the perception with regard to Brazil. I should say that foreign investors and foreign governments are viewing Brazil with cautious optimism. It used to be an attitude of reservation, of wait and see; now, in my opinion, we have already reached another stage. We are at the stage of cautious optimism. Let's see - maybe it will work - let's keep an eye on it, let's start placing our bets on this emerging market. And the results are starting to be seen. You may have seen, gentlemen, that World Bank report which placed Brazil among the five great countries, the five great economies of the next ten to fifteen years.

In Britain, the Chancellor of the Exchequer and the Secretary of the Treasury prepared a document that was leaked to the press saying that Brazil,

over the next ten to fifteen years, would be among the seven largest economies. The G-7 will have a new composition, and if it is the weight of their economies that counts, Brazil will be in and Britain will be out. This report caused great repercussion in the British press. Perhaps you know that in terms of financial investment, investment in shares, in the stock markets of emerging markets, the global emerging markets, if you add all the American and European funds, for the last three years Brazil has been the country, according to studies that I have had the opportunity of seeing, in which they have most invested in stocks: 11% of all funds invested in emerging markets, that is to say, Asia, Eastern Europe and Latin America, are channeled to Brazil. China and Hong Kong receive 7%, and Mexico 6%.

This is a significant indicator. In spite of the criticism, the lack of confidence, investment is channeled to Brazil. We know that the rates are highly favorable, very positive, but this is still a vote of confidence in Brazil. We recently saw data published on investment in all the countries of the world, and Brazil is ranked in second place among all emerging markets after China, and in fifth place after the United States, Britain, Japan and China with regard to overall overseas investment, I think it is important to give a few figures. With regard to stock market capitalization, São Paulo, in June this year, was already the second ranked stock market among emerging countries, coming right after Taipei. From January to June 1997, São Paulo was in fourth place among the emerging countries in terms of trading volume. According to data at the end of 1996, the capitalization of the Brazilian stock market was more than US\$ 200 billion. These are meaningful figures, showing Brazil's participation as a significant player, not just in

the financial area, but also in international trade. I think that, with these figures, I will conclude at this point, I submitted to you a few reasons to go to Brazil to discuss and see some of the market potential. And also to conclude, I would like to refer to a notion that exists in Europe, and I see also exists in Asia, that Brazil and Latin America are the poor cousins of North America, and that most of our trade is with North America. In fact, this is not true at all. Most of Brazil's and South America's trade is with Europe and not with the United States. The United States is our biggest individual trading partner, but our biggest regional partner is Europe, representing around 28 to 29% of trade. Europe is as strong a partner as the United States, if we take Europe as a whole from the point of view of investment. Therefore, I think this type of meeting, this type of seminar, is important so that we can present up-to-date information on what is happening in Brazil at present, given that our country is among the emerging countries that are competing not just for trade but for investment from around the world.

Rubens Antonio Barbosa, 59, is the Brazilian Ambassador to the United Kingdom. He has a Law Degree from the University of São Paulo and an MA Degree in Special Studies on Latin America from the London School of Economics. Ambassador Barbosa has also taken other courses such as Government Planning, at the University of Brasília and Economy, Finance and Politics at the London School of Economics. In the course of his diplomatic career, Ambassador Barbosa headed the Brazilian Section at Mercosur and was Vice-chair-

man of the Permanent Foreign Trade Committee of the Foreign Affairs Ministry. He has also written a number of magazine and newspaper articles, as well as a book on "A Perspective of Latin America: Integration from Theory to Reality".

At present, Ambassador Rubens Barbosa presides the Association of Coffee Producing Countries.

Flávio Fava de Moraes

President, University of São Paulo - Brazil

"The Current Stage of Scientific and Technological Development in Brazil"

The theme I was asked to speak on is that of Brazil's stage of scientific and technological development and I would like first to explain the challenge that Brazil faces with regard to technological development. We can see that although the population of the world is around 5 to 6 billion people, only around 700 million live in countries regarded as developed. Then we have a small segment considered to be developing countries, and finally a huge section of the world's population living in territories deemed to be underdeveloped. Latin America is located here in this segment, with 450 million people and if we distribute Brazil within this segment, it would be precisely the borderline country with 160 million inhabitants between the yellow color of underdevelopment and this greenish color of countries in a clear process of development. We are, therefore, exactly at a point of transition toward a good level of development.

The challenge that we face in making this leap in competitive quality is involved in the organization and marshalling of three principal agents. The first is the government, which generally wants to see fast results. The second is the business community, which also wishes to see fast and profitable results. And the third is the system of research and development, which, in the case of Brazil, is basically in the universities, which have a slower commitment to the acquisition of knowledge. The University of São Paulo was born internationalized, was born globalized, because out of 60 thousand students and 5 thousand professors it has 5 thousand students and professors from abroad, coming from 75 different countries. This participation by the universities in the international system, and in particular the system of the American continent, takes place within a Mercosur economy of one and a half billion in which there are 200 million people and 450 million people in

Latin America as a whole. But in the future FTAA we shall have 750 million people and an economy of US\$ 13 billion.

What can Brazil offer in terms of development? It can offer something obvious, namely, that the country's development needs people and investment. And regardless of this, it offers political stability with quite a reasonable democratic system, an economy enjoying internal and external credibility, and it offers youth because it is still a very young country.

The place where research takes place in Brazil is basically in the universities, both for basic research and applied research, as well as development. The universities have an enormous responsibility in Brazil because we still have a culture in which business invests very little money in research. Therefore, universities have four missions in Brazil: that of creating knowledge through research, that of spreading knowledge through teaching, that of preserving it through access to information, and they have to know how to use the information, that is to say, they have to teach the use of the technologies. In the case of Brazil, the universities are governed by the following parameters. If we take the February 1995 edition of the magazine Science, which was a special issue dedicated to science in Latin America, it shows that four countries undertake quite a lot of science and technology just in Latin America. The only one improving is Brazil.

We note the performance of Argentina, Mexico, and Chile. This article in Science, that reviews more than a decade, shows that scientific development in Brazil is on the rise. If we were to look at the total investment in science and technology up to 1990, we should see that as a percentage of GDP, Brazil in-

vested little more than 0.5%, in fact around 0.7% of its GDP in science and technology, thus being some way behind the countries listed here, in particular Japan, the United States, France, Germany, Britain and even Italy and Taiwan, which are countries that invest quite a lot. Our investment, therefore, is apparently a small investment as a proportion of our GDP. When we see of that 0.7% invested how much came from the private sector, that is to say, from industry, Brazil, as I have already said, has a low spending culture of around 0.1 or 0.2 or 0.3% at most of private investment. We know that if we take the United States, which is the standard against which to judge development in science and technology and if we examine some work done at the National Science Foundation we can see who pays for science and technology and who carries out the science and technology in the United States. These graphs are quite informative, showing that development is paid for firstly by industry and secondly by the government with practically no development receiving investment from the universities. When we examine applied research, the share of industry falls to about the same as the government and the share of the universities and other sources rises. But when we look at basic research in the United States, we see that it is the government that is the great paymaster for this research. And when we look at who does the research in the United States we see that it is the universities. And it is industry that does the development. So we have a country in which development and basic research are carried out in two quite different sectors, in terms of making progress in science and technology.

If we analyze Brazil and we look at where science and technology are done, we shall see

that this takes place basically at ten universities. Therefore, the institutions carrying out research are basically universities. As we can see, the only one that is not a University is a research institute. And of all the universities dedicated to science and technology in Brazil, only one is a fortunate exception in not being in the south or southeast of the country, namely the University of Pernambuco, which is ranked in eighth place and is in the northeast of the country. Of the four leading universities, three the University of São Paulo, the University of

Campinas, and the Jùlio Mesquita University are in the State of São Paulo. Therefore, the State of São Paulo and the other southern states are the only regions that concentrate any degree of competence in the development of science and technology. And of the ten leading places, only one

which is in Rio de Janeiro is not a University. When we look at the share of publications we can see the type of curve it shows and it is exactly the same type of curve that the University of São Paulo shows. In other words, what happens in the University of São Paulo is typical of what happens in the country as a whole.

In Brazil, businessmen and companies are much criticized for not spending more on research and development in the universities. We can see that this is a myth because in the United States, if we take all these American universities and we examine what percentage of the universities' budgets comes from private industry, we can see that the only American Universities'

sity that receives more than ten percent of its budget from private industry is MIT, which moreover, is not strictly a University, and which receives 15% of its investment directly from the private sector. All the other universities receive less than ten percent of the money coming into the University from the private sector. This confirms a piece of data that I have already referred to, namely, that private industry, generally speaking undertakes its own development, in its own research and development laboratories and the little private sector money that finds its way

to the universities is for applied research contracts, or even for financing basic research. But the University of São Paulo, in 1996, is an oasis in the Brazilian University structure in that it has a budget comparable with that of the best big-sized universities in the developed world. The University of São Paulo had a budget of USS

1,125 billion, of which US\$ 773 million came directly from the State of São Paulo because the State of São Paulo maintains the University. And within this budget, it is important to emphasize that US\$ 130 million come from the private sector, thus amounting, in the case of the University, to 11.3% of the total funding. I dare say, therefore, that the University of São Paulo is the MIT of the Latin American University system, since this private funding exceeds ten percent.

You may wish to call my attention to the fact that this covers both public and private funding. This is an exclusively Brazilian problem. For Europeans and Americans this division does not apply, but there are



lots of people in Brazil that consider that money from stateowned companies is from a public source. But, even with us, many deem them to be private because although they have public money, they have shareholders, they have shares traded on the stock exchange, and therefore, they are public corporations and this is to be understood, as we see it, as a private source, although not everyone agrees that companies are strictly private where the government holds the controlling interest. But, in any event, it is important to know that there is a lot of private investment in the University of São Paulo, comparable to that in First World universities.

Having made this numerical presentation of the University, I would like now just to emphasize three points. The first is that research at the University is strongly concentrated on basic research, but as I have already said, we have strong links with companies. And together with the foundation that supports research in the State of São Paulo what we are engaged in is thematic projects in which we are associating basic and applied research with the companies and the government, to resolve in the medium term, programs or problems that have a great effect on the country as a whole. In this University the first Brazilian computer was made, the first organ transplants in the country were made, the first atomic clock in South America was constructed, the first biotechnology experiment in space on the Colombia mission was carried out. It was the University that took Brazil to the Antarctic and the South Pole. And thanks to the University and to another important Brazilian company, Petrobrás, Brazil is managing to demonstrate the possibility of exercising sovereignty over a two hundred mile limit at sea. The responsibility for the defense of this lies with the armed forces, the University of São Paulo and Petrobrás the first responsible for the biology and the second the geophysics are demonstrating the capacity of Brazil to increase by more than 4 million square kilometers the 8 million that it already possesses.

The other example of where universities in Brazil are in respect of the solution of other problems suffered by companies. A good example would be that of pulp and paper, But I have chosen another example. Twenty years ago, Brazil received, in the State of São Paulo, a report from the FAO saying that all orange plants should be destroyed, because of infection with citric cancer, an orange plant disease. The University and the foundation invested US\$ 5 million in a five-year project at a million dollars a year. Twenty years later, the State of São Paulo is the biggest orange producer in relation to area in the world: Brazil is second, but the State of São Paulo, per unit area, is the world's largest orange producer. It has 200 million orange plants and exports in the form of juice an average of one and a half billion dollars a year. This shows that a joint effort between the established competency, the quality of the science developed, the investment raised and organization in solving a problem, doesn't just solve problems, but also forms a great nucleus of specialists and, in particular, produces highly profitable results.

The University of São Paulo alone, conducts 30% of Brazilian research, the State of São Paulo conducts 60% of Brazilian research. And why is it that Brazil, which is highly heterogeneous, manages to be a place where science and technology can be done? Because we have a budgetary system that has no equal in Brazil. The state government allows us to index the budget of the University and the foundation that supports research to tax revenues, in such a way that the State of São Paulo, which is the richest state in Brazil, allows 10.5%

of its budgeted tax revenues to be given solely to state universities and the foundations that support research. This is equivalent to saying that, overall, the state invests around two billion dollars in the public system of science and technology, not including money raised from other sources.

What is the result of this policy, in Brazil, of support for the development of science and technology? I believe that Secretary Kapaz will develop this question, but I can guarantee that, of all the investment, whether from Brazil itself or in particular from foreign companies that invest in the State of São Paulo, of the last 16 projects involving foreign funding, 95% say that the state's infrastructure is the great motivation. Of these 16 projects, four place infrastructure at the head of the list, the existence of a first world University, justifying that investment is being made not just where material and physical conditions are available, but in particular, where there are human resources and high quality trained professionals and, therefore, there is a highly trained labor force available. Therefore, this is the great differential compared with other regions. The infrastructure in the training of people is the great differential, is the great advantage that the University of São Paulo has made available to company investors. It is no coincidence that São Paulo became Brazil's great Industrial center precisely after the University of São Paulo was founded in the 30's.

Regardless of the quality of the University and of the people that it trains, other sectors too are important. Brazil has been through a period when we had no democracy, when there was no competence we were mediocre. Then we went through a period when we had democracy but no competence it was an im-

posture. Later, we still had no democracy but we had competence, but it was tyranny and today we have competence and we also have democracy. So we are building a nation.

Flávio Fava de Moraes, 59, is the President of the University of São Paulo. He has a degree in Odontology from this University. His academic career was as follows: 1961 - Educational Assistant, 1964 - Doctorate: 1969 - Lecturer, 1970 - 1971 - Visiting Professor/Michigan University, United States; 1973 - Assistant Professor; 1980 - University Professor of Histology and Embryology at the University of São Paulo Institute for Biomedical Sciences. Mr. Moraes is a member of the Brazilian Society for the Progress of Science and the São Paulo Science Academy. He was Scientific Director of FAPESP (The State of São Paulo Foundation for the Support of Research) from 1985 until 1993. He has published 96 scientific articles in Brazilian and foreign publications. Mr. Moraes was the first Latin American citizen to be awarded the U.S. W.Gires Foundation Award. He has been granted various honorary titles such as Professor Emeritus of the University of Valencia (Venezuela); Professor Honoris Causa of the University of Soka (Japan). He attended and lectured at many scientific events in 21 different countries and has recently participated as a delegate on several technological and scientific policy missions. He is also vice president and representative of the International Association of Universities at the United Nations' Office in Vienna, Austria.

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Carlos Alberto de Azevedo Pimentel

Ambassador and Director - Department of Scientific, Technical and Technological Cooperation - Ministry of Foreign Relations - Brazil

"The Current Stage of Scientific and Technological Development in Brazil"

It is with great pleasure that I address these words to the participants in the seminar "Investment Opportunities in Brazil – Cooperation and Repercussion in Mercosur." This theme has top priority on the Brazilian economic agenda, and I believe that it is a subject of noteworthy interest to governments and economic agents from various parts of the world. The debates that will take place over these two days will undoubtedly have positive repercussions in strengthening Brazil's traditional relationships and in forming new partnerships that events such as this one help to build. These new partnerships will have a great deal to do with the atmosphere and opportunities that you will find in Brazil in the field of research and development. The physical

and legal structures are in place so that, by making use of innovative and efficient knowledge, new industrial processes and state-of-the-art products are implemented.

I hope that, in the course of my lecture, I will be able to offer a picture - although still a fairly general one - of the many comparative advantages that Brazil enjoys as a scientific and technological partner. Conversation on this subject updates understanding and comprehension of our real ability, and shows that Brazil is not only a reference for the future, but is also an area in which a strategic position must be ensured. Indeed, the country stands for a bet on the present, on its industry and technology, on its universi-

ties, on its research centers. Our specific legislation encourages research and development that, considering the imperatives of the world and a globalized economy, do not restrict competition between companies from all parts of the world in activities related to knowledge and technological development being undertaken in Brazil. This is an extremely important point. At a meeting in Bonn about four months ago, one of the questions raised was the absence of small and medium-sized German companies in Brazil, whether through direct investment or in the form of joint ventures. And one of the reasons cited by the Germans was that the German business community was unaware of the scientific and technological structure available in Brazil, and were afraid that, in moving to Brazil, they would have to depend on specialized expatriate German labor, which as everyone knows is very expensive. and on the technical support of German technological centers, since they were concerned about not being able to find this kind of support.

We have just heard professor Fava says exactly the opposite, and heard him show how the State of São Paulo attracts investment precisely because it has a first-class scientific and technological structure available. At the end of this millennium, Brazil and the Southern Cone have been changing rapidly and increasingly into one of the most attractive centers of investment in the world. In fact, in the case of Brazil, economic stability has contributed to this scenario. The end of sky-high inflation rates, coupled with the prevalence of democratic standards, ensure and support the economic activity that is taking place in our country today. As a result, on one hand, the federation has been strengthened. Today, Brazil is a federate state; the states

have increasingly more political weight in our country. On the other hand, the private business sector has been greatly strengthened through competition and privatization.

For many decades Brazil thought it could develop economically within an autarchic scheme. This view has been overcome by events, not because it was a mistaken view, in Brazil's case, but simply because the reality of the world is different today and competition has become absolutely essential to arrive at any significant economic attainment. In these recent years, therefore, President Fernando Henrique Cardoso's economic policy has managed to eliminate the corrosive effects of high inflation rates and to establish the conditions for this development to take place. And this was done without any traumatic shocks or any exotic therapies that penalize our economy and our society. In fact, the economic policy combined modern instruments of fiscal, monetary and exchange policies with broader processes of the reform of the state and fine-tuned them with a wide range of economic and political agents. It is quite true that the process is not over, it is quite true that there are still many obstacles to be overcome, but the path has been clearly set and there is not the slightest question about this. Thus, within the scenario of single digit inflation that is expected to settle down to 5 to 7% a year, Brazil finds itself enjoying growth rates that we can reasonably describe as sustainable, and is attracting investment from all around the world.

Our privatization program is a good indication of how the whole world is interested in investing in Brazil. When an investor arrives in Brazil, he will come in contact with an economic and social reality that, most of the time, diverges from the traditional ste-

rectype of developing countries. The investor will find, in fact, not just the biggest industrial establishment in South America, indeed in the Southern Hemisphere, not just a vigorous capital market, but also physical and legal structures for the development of significant technological partnerships. Little by little, Brazil has established legislation providing incentives for research and creating benefits for companies that wish to invest in research. And, at the same time, it has created a body of basically bilateral international agreements, allowing and encouraging the participation of the private sector in science and technology cooperation programs. Today, we have some extremely well-prepared programs with important partners such as Germany and France, in which the private sector is essential for good performance. I refer, in the case of France, to the Recherche Industrie program that puts Brazilian companies and research centers together with French companies and research centers to solve specific technological problems. And in the case of Germany, there are programs to fight environmental pollution caused by industry, which allow Brazil to become eligible for the ISO 14000 certificate, programs that began around two years ago, and which now are expanding from the textile industry to the leather industry with extremely good results. These incentives are open not just to Brazilian companies, which, incidentally, are no longer distinguished from any others, but also to foreign-owned companies, above all to small and medium-sized companies. In the field of knowledge and its repercussions on industry and companies, Brazil is enjoying renewed authority, which, added to economic stability, is even more conducive to innovative projects for international cooperation. An example of this, strictly in accordance

with President Fernando Henrique Cardoso's and Chancellor Luiz Felipe Lampreia's broad guidelines for public and federal diplomacy, are to be found in the renewed forms of our international agreements on science and technology, which, as I have already said, bring under their aegis the participation of the private sector. The productive sector – public and private – as well as the states and towns, will now participate more extensively in such international cooperation.

Our credentials are also enriched by the fact that we have the largest population of scientists in the Southern Hemisphere. Within our universities, such as the University of São Paulo, Unicamp and the Federal University of Pernambuco, which, it is a pleasure to learn, is among the ten best in terms of research - there are internationally recognized centers of excellence, in physics, in the preparation of non-destructive tests, in experimental chemistry, and in fine chemistry, basic activities for the more advanced sectors of today's industry. Research on health and gariculture is carried out at biotechnology laboratories and at institutions such as Embrapa and Fiocruz, that respectively carry out state of the art research on the genetic improvement of seeds and on the development of vaccines and other medications against new viruses, as well as against traditional diseases. And, we must emphasize that these institutions have developed a large part of these activities in partnership with overseas institutions and universities.

Our metrological measurement institution furnishes the necessary foundation for Brazil to confidently face the challenges of new techniques and the standardization of international trade that is now extended not just to the product and the goods as such,

but to the entire production process and its implications for the environment. In this context, it is worth mentioning the Inmetro, an institution that certainly plays a central role in ensuring that Brazil, today, has more than 1,500 companies that have been awarded the ISO 9000 Certification and is efficiently preparing for the ISO 14000 and other standards for industrial production and the environment. Also fundamental in this field is the work of the SENAI - National Service for Industrial Training that extends technological opportunities to small and medium-sized companies. The structure of state federations of industries include state-of-the-art activities in this area, such as the Centro Nacional de Tecnologias Limpas (the National Center for Clean Technology), located in Porto Alegre, which is open to Brazilian companies, and in the very near future, will serve as a model for centers of the same kind to be set up in Mercosur with the support of the Brazilian government.

These activities are consolidated not just through the participation of local businessmen, but equally through the United Nations Industrial Development Organization with the seal of approval of the United Nations Environment Program, thus subscribing to Agenda 21 - the schedule of implementations prepared at the Rio 92 Conference -, to which Brazil. through initiatives of this sort, is making its contribution to the environment issue - without disregarding economic development. To invest in Brazil is to invest, moreover, in establishing a presence within an economic region that is consolidating and expanding, namely Mercosur. This form of regional integration made up initially of Brazil, Argentina, Uruguay and Paraguay, has extended its free trade nature through the so-called 4 + 1 type agreements. Through this mechanism, Chile

and Bolivia have already joined the process of Southern Cone integration and this mechanism will be extended to other countries and regions, as our Chancellor Felipe Lampreia made clear in his words of introduction to this seminar.

At no time has Mercosur, in its initial concept, or in its present form, been marked by self-absorption, by protectionist or discriminatory barriers, which its member states repudiate for the region and for all foreign trade, as our performance at the World Trade Organization has demonstrated. On the contrary, the Mercosur must be seen as a platform – and it was in these terms that our ambassador Marcos Azambuja – who was in Buenos Aires for five years – referred to it with regard to the inclusion of our economies in a globalized world.

Likewise, in the field of scientific and technological cooperation we are drawing up mechanisms, together with our Mercosur partners, to encourage interaction between universities and business, which must not exclude European companies and universities. The objective of these programs is to create conditions for Brazilian and Argentine companies or Brazilian and Uruguayan companies, to be able, through joint ventures and technological incentives, to sell to other markets. This common focus, therefore, and other experiences of regional economic integration, give you the measure of Mercosur's non-excluding vocation. It is in this context that Mercosur and the European Union have already signed an advanced agreement, a socalled 4th generation agreement, which, among other items that are important to the integration of the two regions, also deals with the question of investment and high-level dialogue in the field of economics and trade.

The success of Mercosur, which today covers a market of 200 million consumers and whose GDP amounts to more than US\$1 trillion, also supplies the inspiration for our philosophy in regard to the integration of the hemisphere. This, in our view, must be sought in a responsible manner in accordance with previously established schedules, so as to contribute to the progressive strengthening of each economy on the continent. Our position with regard to the integration of the hemisphere has been sometimes illustrated by the image of building blocks that become stronger as they aim at the objective of a Free Trade Area of the Americas, which the advent of hemispherical integration must not be allowed to dilute.

For Brazil, the entry of European investment in the country and the extensive and sophisticated trade, scientific and technological cooperation terms are one of the top priorities of our economic diplomacy. We are very pleased that the European Union is our principal trading partner. The member countries of the European Union, when viewed under the bilateral dimension of their relationship with Brazil, are also our traditional partners in the field of scientific and technological cooperation. We, therefore, want this partnership with Europe to intensify both at the community level and bilaterally, and to include a higher flow of trade of agricultural products and scientific and technological cooperation in key industries.

In this context, this seminar is an important moment in the debate on the economy of our regions and the many types of joint investment. It also represents a moment for updating the understanding that you should have of Brazil and its potential as an economic and trading partner, and, let it be said, scientific and technological partner. I would now like to place my department, the Department of Scientific, Technical and Technological Cooperation of Brazil's Foreign Ministry, at the service of establishing and increasing these partnerships. I would like this department of the Itamaraty, that I have the honor to head, to be a reference for the activities that I hope you will constantly be undertaking with Brazil.

Ambassador Carlos Alberto de Azevedo Pimentel is General Director of the Department of Scientific and Technological Cooperation of Brazil's Foreign Affairs Ministry. As a diplomat, he worked at the OAS (Organization of American States) in Georgetown, Washington, D.C. and in Moscow. Mr. Pimentel was the Brazilian Consul General in Hong Kong. He was the head of the São Paulo State Government Department of International Cooperation and Ceremonial Procedures at the time of former State Governor Franco Montoro's term in office.

Mr. Pimentel is Head of the Work Group on International Relations of Internet Management Committee in Brazil and a member of the Board of Directors of the Latin American Technological Information Network

Emerson Kapaz

Secretary of Science, Technology and Economic Development -São Paulo State - Brazil

"Privatization in São Paulo State"

I am very pleased to be able to address a few words on the State of São Paulo's development project, emphasizing the policy of attracting investment to our state and giving some important information on the privatization program in course in our state. But first, it is important to emphasize where Brazil stands at this moment, where the State of São Paulo stands and what the international context of our economy is.

If we were to evaluate Brazil and the State of São Paulo in the context of Latin America, we would see that Brazil's population of 156 million inhabitants accounts for 33% of Latin America's population and our Gross Domestic Product accounts for 42% of all of Latin America's GDP, and 70% of Mercosur's. The State of São Paulo, within the Mercosur context, also plays a leading role. São Paulo can almost be considered a country, not only because of its size – it has a population of 35 million people – but also because of its Gross Domestic Product of almost US\$ 250 billion, which to-

day is very close to that of Argentina. Its population is also significant in relation to Mercosur and to Brazil.

Mercosur is an economic block representing a GDP of more than 1 trillion dollars and a population of more than 250 million people. I think we have three points to consider specifically in the case of Brazil, and it is worth thinking about what low inflation and economic stability have in fact meant to our country. Unfortunately, Brazil, because of its infrastructure, and in spite of being a country with considerable scientific and technological development and with the highest industrialization index of any developing country, is still the country with the poorest income distribution in the world. Unfortunately it is seen as a country with huge social inequalities. It is difficult to understand, looking at Brazil, why this should be so. Why a country that has an industrial infrastructure, that has all the conditions for economic development, that has been through a process of strengthening this development has at the same time, such tragic social indices.

The obvious explanation for this, after various studies carried out by economists, lies in the question of inflation. Inflation came to 5,000% a year just before the implementation of the Real Plan. This figure is so absurdly high that it is impossible to explain it to people in Europe, to foreigners in general, to Americans. It seems that only we Brazilians can understand what 5,000% a year means. There is a joke that Brazilians tell about inflation in Brazil: whether it is better to take a bus or a taxi during a period of high inflation. And the answer is always that it is cheaper to take a taxi than a bus, and nobody understands why. It is because you pay for a taxi at the end of the ride, but a bus ride you pay for up front. With inflation running so high, you lose less money by paying at the end of the ride because of the currency depreciation stemming from the almost "hourly" inflation. So, by the time inflation was held at bay, it had represented an accumulated tax burden that hurt the poorest segment of Brazil's population more than any other seament.

Over the last twenty years, we have had inflation of 1.1 quadrillion percent, that is to say, a number with sixteen zeros after the first comma. And half the population defended itself against this inflation through indexation and monetary correction, which were created for us to be able to live with the inflationary process. But the other half of the population – approximately 70 million people – had no bank account, had no means of protecting themselves from this inflationary process, and spent their money in rotten currency, that is in cash, which did not receive the benefit of monetary correction. As soon as we had economic stability, and this inflationary process was checked, the

lower income segment of the population began to take part in the market economy. This was not because it had had any nominal wage increases, but because it had ceased to lose everything it had been losing over the last 20 or 25 years. And gradually as the inflationary burden grew lighter, and people saw their purchasing power recover, they began to take part in the market as consumers.

These new consumers that appeared in Brazil because inflation was held back are, in fact, revolutionizing Brazilian production. They have created a new Brazil. A new country is emerging from this process and has realized that it is possible to produce for 70, 80 or 90 million consumers, and not just for 20 or 30 million, as used to be the case in the country of inflation, in which all production was intended mainly for those that managed to protect themselves against inflation.

I must point out that it is not just general Brazilian inflation that has returned to First World levels of 5 or 6% a year, in the period of the Real Plan. The inflation of the basic basket of goods that feeds this segment of the population has amounted only to an accumulated 4% over the three years of the Plan's existence. This is the lowest inflation rate in the world in this period. Therefore Brazil, besides curbing high inflation, has managed to make inflation for those who live on the basic basket of goods lower than the inflation for the middle classes and for the higher income people who spend on a range of other products. We have noted that, in the last four years, the chocolate, biscuit, isotonic beverage, shampoo and fabric softener seaments have enjoyed sales volume growths of 124%, 75%, 1,700%, 70% and 180% respectively. In terms of real growth in sales value they tripled and rose by 75%, 1,500%, and 240% respectively over 1995. These figures are mostly related to industries that sell to these new consumers that have come into the market and caused a re-allocation of production for companies investing in, or already producing for the Brazilian market.

Another example is the automotive industry. Fourteen new entrants are currently setting up facilities here in Brazil. Brazil will have more car manufacturers that any other country in the world, who will produce vehicles not only for the Brazilian market, but also for Mercosur and Latin America. About 60% of the vehicles will be less expensive popular models, vehicles almed at the lower income segment of the population. In this sequence it is important for us to note a few figures. Brazil is the country with the highest number of multinational companies -, 352 of the world's 500 largest companies are operating in Brazil. Brazil receives more industrial investment from the United States, France, the Netherlands, Germany, Switzerland and Italy than any other country in the world. It is the second biggest investment destination for the German car industry and the second biggest market for sales of the Xerox Company. This means an important change today, as the service sector is beginning to take an important role in the creation of job positions. Brazil ranks third in the world in terms of the number of television sets, and of franchising networks. It ranks third in Coca Cola sales, fourth in video tape rentals and the deodorant and hair products market and fifth in advertising revenues and CD sales. This gives you some idea of the size of the country and of Brazil's growth potential.

As for the State of São Paulo specifically, and looking at São Paulo in relation to Brazil as a

whole, we can see that it accounts for 40% of the country's industrial production. If it were a country, the State of São Paulo would be the world's tenth biggest producer of vehicles. Today, it accounts for 95% of Brazil's orange juice exports and 60% of sugar exports. It is home to South America's biggest financial and commercial system and 30% of Brazil's exports leave from this state. The State of São Paulo represents 22% of Brazil's population. Consid-

ering the State of São Paulo, we have policies to attract investment, recever production capacity, and train a qualified labor force. We provide good transport logistics and infrastructure. These thre-



e points together form the three fundamental bases, which any company in the world needs when it invests, considering the globalized economy. With regard to the question of transport logistics, no company invests in any state or any town, or anywhere, if it cannot trade with the rest of the world at low distribution and transport costs. This is one of the State of São Paulo's strong points, as we will see in a moment. The transparency of the quality of the work is another strong point. In terms of the level of education university level education, a level that has been talked about by Professor Fava we have 540,000 students at universities and colleges, in the state's three lead-

ing universities, which are USP, UNICAMP and UNESP. These are the universities with the highest quality teaching in Brazil today. As has already been shown, the University of São Paulo alone accounts for 30% of the investment in science and technology in Brazil and half of the investment made in the State of São Paulo. These three universities receive funding from the state amounting US\$1,5 billion a year to be able to invest, expand and continue supplying qualified people in the field of technology. In addition to this we have nine public sector technical colleges - which in Brazil are known as technical schools - that train qualified people in the field of technology.

At the high school level, we have 690 technical schools, which are in fact schools that train workers in many fields related to industry. We are restructuring the state's 99 technical schools, reorganizing and mapping the vocational courses that exist in various towns and adapting the vocational courses introduced to these 99 schools to regional requirements. Thus, a company investing in any region in the state will have a qualified labor force, that is trained and adapted in the skills of the field where it is investing. about 226,000 students study at 338 such schools.

In regard to infrastructure and distribution logistics, four agents interact so that we have the best logistics at the lowest cost. I am referring to technology, multiple types of transport, communication and power supply. I shall say a few words on each so as to give you an idea of what is happening specifically in the State of São Paulo. In terms of technology, for example, besides the universities, we have 31 research centers of which 17 are technological research institutes. The largest of them is the IPT, the State of São Paulo Technological Research Institute, the biggest in

South America, with 1,300 researchers and a budget of almost US\$ 200 million a year. Partnerships with the universities take place through courses that are adapted to the demands of a new market for research and development, as we have seen, and the preparation of labor trained to university level. In the case of the multiple types of transport, I would like to emphasize at this point the combination of highways, railroads, waterways, ports and airports, which in fact form the multitype system and reduce the integrated distribution cost of production for a company installed here.

According to the map of the State of São Paulo's major highways, roads connecting the State of São Paulo with other states, with the Port of Santos, the metropolitan area of the city of São Paulo, and all the roads leaving the state are covered by two-lane highways.

I shall make special mention of the problem of privatizing the highways in the State of São Paulo. We have initiated a privatization program involvina the major two-lane highways in São Paulo. cessions are about to be granted to private operators to operate 5,000 km of roads. These roads were divided into 22 lots that will be run under 20-year concession grants. Return will be obtained from the introduction of tollbooths on these roads and on the principal exit points from the State of São Paulo. By the end of November or the beginning of December, bids will be made for 12 lots to start off the concession program. These 12 lots will involve approximately 2,400 km of highway. The bid for the main highway leading from the city of São Paulo toward the interior of the state the Anhanauera-Bandeirantes system is expected to be made at the end of November. According to a recent proposal, the concession for this highway that runs from São Paulo, via Campinas, to Limeira, involves US\$1,8 billion.

We are also going to start the construction of more lanes for the Anhanguera and the Anchieta-Imigrantes highways. The second highway connects São Paulo with the Santos area. By the end of July 1998 all these programs should transfer all the 5,000 km under the concession program to companies interested in investing in highways in the State of São Paulo.

With regard to the state's railroad program, Fepasa, the State of São Paulo's railroad company, is connected to all the principal railway systems formerly owned by the federal government, and which have all been privatized. The privatization process for Fepasa- Ferrovia Paulista Sociedade Anônima is the last one pending for the state's railroads. It is only waiting for Senate approval of São Paulo's debt re-negotiation program in which Fepasa was pledged to the federal government as an asset in the debt re-negotiation process. It will be sold and privatized by the Bank for Economic and Social Development, the BNDES. As soon as the re-negotiation of the State of São Paulo's debt is approved by the Senate, we shall be free to privatize Fepasa and thus conclude the cycle of railroad privatization in the southeast of the State of São Paulo.

The specific case of waterways is very interesting from the viewpoint of Mercosur. Waterways will be the only means of communication connecting the whole of the interior of the State of São Paulo. The Paraná River flows down to Itaipu, the bi-national Itaipu hydroelectric power plant; part of the Tietê River is navigable today, thanks to the existing locks on the Tietê River and the existing locks on the Paraná River. We still have to

finish the construction of the last lock at Jupiá, which is planned for December 1997. Then the Tietê river will be entirely navigable, together with the Paraná river, from Conchas, 100km from São Paulo, down to Itaipu. waterway will connect all of Mercosur. São Paulo has a total of 2,000 km of navigable waterways at a freight cost 60% lower than road freight. When this flow comes on stream with the completion of this lock, we can expect to see a significant degree of economic development in the 81 towns bordering the state and the Tietê river, and of the development of the whole region, whose major problem today is how to ship goods out. The waterway will become for the State of São Paulo what the Mississippi river has been for the development of the United States. This is particularly true of the interior of the state, which has enormous potential for soya, oranges and agribusiness in general, which will use barges and river transport to connect with Mercosur and leave Brazilian ports for overseas transportation. Therefore, the waterway is already a reality, and will speed up the integration of Mercosur through this river connection that will be available as of January 1998

As regards the ports, the port of Santos is located in our state. The port, part of which was privatized on September 17, is the largest port in South America, with 50,000 square meters of container terminals. This container terminal, the largest in South America, has also been privatized. It was sold for a premium of 170% over the reserve price. There are some other areas of the Port of Santos to be privatized. Nonetheless, with the privatization of this terminal and 40% of this port itself, through a twenty-year concession, will be practically operating under private enterprise. This will substantially reduce the costs of those companies that used

the Port of Santos when it was state-owned at a very high operating cost for their containers. According to estimates, following the privatization of this container terminal, within two years the cost of importing and exporting containers will fall by a factor of three, from US\$ 600 to US\$ 150. Therefore, the port of Santos also provides an enormous competitive advantage. The port of São Sebastião belongs to the State of São Paulo and is to be privatized as well. It occupies a 65,000 square meter area, and plans are to expand it by another 283,000 square meters. It has a natural draft of 20_meters that starts as soon as a ship leaves its berth. It handled 410 tons in 1995.

Just to have an idea of what these logistics mean in operational terms, have the City of São Paulo, and Campinas, which is the state's second major economic development region today. The Campinas region has a gross regional product equal to the whole of Chile's GDP. The whole of Chile would fit into the Campinas region. We have the city of São Paulo, São José dos Campos, and the two ports, the Port of São Sebastião and the Port of Santos. We can see that, in loaistical operating terms, for this region as a whole, the São Paulo Rio de Janeiro axis will be greatly benefited by the introduction of an improved distribution system, to bring goods in and out. We already have a gas pipeline running from the Campos Basin to São José dos Campos then continuing on to Santos.

Let us look now at the 32 domestic airports in the state, of which two are international. The two largest freight airports in Brazil are also in the State of São Paulo. In terms of communication communication infrastructure is today essential for any company we have the digital map of the State of São Paulo to have an idea of what this means in the urban areas of the main towns in

São Paulo. All are connected by 4,000 km of optical fiber and cable covering all the principal urban regions of the state, allowing companies to connect, as soon as they set up, with affiliates located anywhere in the world through optical fiber and cables.

And now the question of power, which is the last but not the least point in terms of raw materials and in terms of attracting investment for the privatization program. The electric energy sector in the State of São Paulo is made up of 12 distribution companies. Of these 12 companies, three of them, CESP, ELETROPAULO and CPFL which are state-owned count for 92.5% of the consumption in the whole of the state of São Paulo. Eletropaulo has enough potential to supply power to all of Argentina. That is to say, just one of the state's energy companies could supply all of Argentina's electric energy needs. We have an installed capacity of 11.8 GW representing 20% of all Brazil's electric energy. These utilities will be privatized over the next ten months. I would like to give you some basic information on the energy privatization program. CPFL will be the first utility to come up for bidding on November 5. Practically the same privatization process has been set up for the three companies. CPFL operates basically in the Campinas region. Of the three, it is the easiest one to privatize. We are beginning the privatization with the best company so that its success can help the privatization of the other two. CESP holds 90% of the shares in CPFL, which means that in privatizing CPFL, we shall also improve the prospects of CESP. Two years ago these three companies were running up losses of US\$ 18 billion. Today all three are profitable, and CPFL is expected to raise at least the reserve price of US\$ 4.3 billion on November 5 just for CPFL alone. If we add together the three companies plus the cooking gas utility, COMGÁS, which is also to be privatized and will be the largest privatized gas utility in the world today the proceeds for the State of São Paulo will be more than US\$ 10 billion. This will give us the ability to finance the restoration of public infrastructure, and allot funds for social investment in the State, which will certainly transform the State of São Paulo into a competitive state for the next millennium from the point of view of the relationship between civil society, companies and states in terms of investment.

In the case of gas, we have three different sources of energy: Santos, Bolivian gas the Brazil-Bolivia gas pipeline and the Campos basin in Rio de Janeiro. The Brazil-Bolivia gas pipeline project alone involves 3,000 km of pipeline and investment of US\$ 1.8 billion, today, within the state. And here we have a strategic view of the gas coming from Santa Cruz de la Sierra, Bolivia, from where it goes through some Brazilian states, and enters the State of São Paulo near Três Lagoas. You can see the Tietê-Paraná waterway that runs almost parallel to the gas pipeline. We shall therefore, have operational river transport and, at the same time, an alternative source of power that we did not have before in this region, namely gas at a competitive price compared to electric power. And this will transform the interior of the State of São Paulo. I have no doubt about this.

Together with the BNDES, we are planning investments in infrastructure for companies setting up in this part of the state, which need to turn their plants into ones capable of connecting with gas. These investments will be made as soon as the pipeline runs as far as Campinas. The gas pipeline is expected to reach Campinas by December 1998, and this schedule is be-

ing adhered to without problems or changes. Therefore, we should have gas available in Campinas by the end of 1998. It was in Campinas that, a short while ago, we announced an investment on account of the Brazil-Bolivia gas pipeline in a new US\$ 4.5 billion petrochemical complex within the city limits of Campinas, jointly with Petrobrás and three private companies, it will supply electric power and petrochemicals to companies producing within the state. The gas pipeline will continue on from Campinas and run down to Porto Alegre in Rio Grande do Sul, when the investment phase will have been concluded.

In short, the State of São Paulo has prepared a development program designed according to a strategy of competitiveness, which will help those companies wishing to invest. We are decentralizing the development of 625 towns in the state by setting up local development agencies in each town that will be responsible, on their own, for attracting new investment. They will be incubators of companies and emerging companies, emerging company funds, joint ventures with international companies and information agencies that will provide the international investor with all the know-how and information on the infrastructure existing in each town.

Just a few important figures on the city of São Paulo the Mayor of São Paulo will make a more detailed presentation on this. The greater São Paulo region is an important focus of investment in services. The region covers 30 towns, 8,000 square km of territory, 16.5 million inhabitants and has a vocation for retailing, services and the tourist business. The region's GDP is almost US\$ 64.5 billion and per capita income is US\$ 4,200. We are considering the possibility of building a new center to hold events, trade fairs and conventions in the city of São Paulo. It will be built near Guarulhos, on a 105 million square

meter site. The center will have 8 exhibition halls and a 98,000 square meter open area. The convention center will seat 6,300 people and the parking lot will have space for 17,500 vehicles. The project will cost approximately US\$ 160 million. The center will be financed by the private sector and not by the state government, which will merely grant the concession of the area, on which private enterprise will construct and manage the convention center.

This is the initial project. At the moment, we are waiting for the legal release of the land to begin construction. Through this, therefore, we shall encourage employment in the São Paulo metropolitan region through business tourism, which is in great demand in the city. What support will we give to those wishing to invest? We have a services sector associated with all the state secretariats, we manage the problems jointly within the government in the environmental, energy and infrastructure areas. We offer all logistical support in the town of choice. If any infrastructure improvement is necessary, we also have the means to solve that problem. This is a list of leading investors in the State of São Paulo, all confirmed, whose investments have amounted to US\$ 22.6 billion since January 1995, and which by the end of December 1998 will be in production. There are more than 280 company investing in São Paulo in a wide range of sectors: Petrobrás, GM, Ford, LG Electronics, Volkswagen, Philips, Mercedes Benz, Dupont, Toyota, Shiffer do Brasil, Compac, Honda, HP and many others.

This chart gives you an idea of how investment is being distributed in Brazil today. The chart was prepared by an independent source, Simonsen Associados. About 30% of companies in the process of investing are coming to the State of São Paulo, 20% are going to the State of Paraná, 15% to the State of Minas

Gerais, 10% to Rio de Janeiro and 25% to the country's other states. There is decentralization in progress. This happens in some cases, unfortunately, in my opinion, because of a tax-break battle being waged between the states to attract new investment.

São Paulo does not take part in the tax breaks war, it does not grant tax exemption to investors, and tries to encourage investment on the basis of competitiveness. At a time when we are giving investors the best infrastructure, the best logistics for distributing their products, high quality labor, and a consumer market distributed throughout the state's towns, I am certain that we shall be competitive, not just for the next three years but for the next millennium.

Emerson Kapaz, 43, is Secretary of Science, Technology and Economic Development of the State of São Paulo. He took post-graduate courses in Business Administration (with focus on Financial Administration) at the Getúlio Vargas Foundation, São Paulo. He is associate partner of Elka Plásticos Ltd., a family concern in the manufacture of toys, with about 500 employees and revenues in the range of US\$ 14 million. From 1992 until 1994, Kapaz was Chairman of ABRINQ (Brazilian Association of Toys Manufactures) and Head of PNBE (National Association of Entrepreneurs). Kapaz is a member of "G-50", Group of 50, an organization that brings together Latin American businessmen every year in Washington D.C., to discuss and try to make feasible the "Competitive Integration of Latin American Countries into Worldwide Globalization". In 1993 and 1994, he was granted the title "Businessman of the Year" in a national poll conducted with 26,000 executives and entrepreneurs by Balanço Anual magazine published by Gazeta Mercantil, the Brazilian business newspaper. Emerson Kapaz is also Chairman of the National Forum of Science and Technology State Secretaries.

Celso Roberto Pitta do Nascimento

Mayor of São Paulo City - Brazil

"São Paulo, Business Capital for Mercosur"

Nearly 2000 years ago, Paul, the Roman general who dedicated himself to working for peace and love, went to the four corners of the world to preach his message of faith and determination. It was also thanks to the abnegated soldiers of God that the message spread by Paul shaped a city 1,500 years later, when the Jesuits established a school of arts, crafts and sciences in a safe location. This site was destined to become a wide-open doorway to the exchange of wealth between the old and the new worlds.

The city of São Paulo has a special talent for greatness. A Brazilian poet once said that São Paulo is the perfect translation of the civilizing message that Paul the Apostle brought humanity. Presenting our city, which is the second biggest city in the world and the biggest city in the Southern Hemisphere, is both an easy

and difficult mission. On one hand, I believe it might be difficult for a European to imagine, for instance, some of the characteristics of the biggest Italian city out of Italy, or to imagine the uninterrupted throbbing of the biggest Japanese city out of Japan, or of the biggest Korean city out of the Southeast Asian peninsula. As regards the Middle East, São Paulo is home to the biggest Lebanese community out of Lebanon. This community lives side by side in perfect harmony and spirit of cooperation with the equally numerous and industrious Jewish community. The city of São Paulo is all of this and much more. On the other hand, the same ethnic and cultural diversity that has made us so strong and able has shaped our character, makes introducing ourselves in a few words a very complex task. But, given that we are motivated by challenges, allow me

to try and overcome one of these challenges. During the 20th century, the city of São Paulo has become one of the urban agglomerations that has undergone the highest number of changes in its 1,500 square kilometer territory. At the beginning of this century, São Paulo had a population of 230 thousand people. During the Second World War, this figure jumped to 1.5 million people. Nowadays, 10 million people live in our city. But please don't think that we have set off some kind of demographic time bomb. Since the last decade, the population of our city has grown at a healthy 1.2% rate. Thus, we have been partially following what is written in Genesis, the first Book of the Bible: we have grown but we have not multiplied. And in this decade, the city of São Paulo's population grew at a sound 0.3% rate. From a human point of view, the demographic profile of São Paulo's population presents productivity presuppositions that are a characteristic of our city. The economically active population of São Paulo comes to 5 million, 200 thousand people. The number of inhabitants falling into the economically active age group comes to approximately 8 million, 200 thousand people. Nearly half of São Paulo's inhabitants are in the 20 to 50 age group, comprising 4 million, 500 thousand people.

The average family, as calculated per domicile, is compatible with the highest global standards - three to four family members per home. Our city has 2 million, 800 thousand reasonably comfortable homes with at least three rooms each, which comes down to nearly one room per person. Drinking water is supplied to 95% of the city's population and 80% of the city is linked to sewage treatment systems. In regard to slums, where 1 out of every 10 São Paulo inhabitants live in precarious housing conditions, the city

government has been involved in a vigorous project whose objective is to eradicate slums without relocating slum dwellers and substitute shanty houses with modern apartment complexes. This housing renovation program was named "Projeto Cingapura", because it was inspired on the success of a similar housing program implemented in Singapore. The project is supported by the Interamerican Development Bank, which has participated in each stage. The project is also partially supported by the federal government and was initiated by the previous city government through the Caixa Econômica Federal (the Federal Savings Bank), the official agency for the fostering of socially-oriented programs.

By the year 2000, 60 thousand housing units will have been built through the Projeto Cingapura. Although this number still does not encompass the entire slum population, it will have been a major step towards the definitive solution of the problem. Precarious, risky dwellings will have been substituted by dignified housing complexes, which means that those who have been living on the edge of society will regain their sense of citizenship and become part of the mainstream. Thus, former slum dwellers will have residential addresses,



access to public services, including postal services, and better chances of finding jobs. In short, they will become productive members of society. The audience here today may not realize what such rights mean to slum dwellers. Rights which are taken for granted by some make all the difference to those who see new horizons opening up in places where only a sub-human existence had been possible. It is precisely this redemption of civil rights that has been the key element of the project's success, and has distinguished it from so many other lower-income housing projects that had failed to reach their objectives. The São Paulo city government is involved in other housing projects besides the Projeto Cingapura. These projects are overseen by a municipal agency which focuses on the construction of middle-income housing developments for the middle class, which represents over 80% of São Paulo's population. The city of São Paulo is the hub of a metropolitan region formed by 38 other municipalities. Sixteen million people, 10% of Brazil's entire population, are concentrated in this region, which takes up only one thousandth of our country's territory. São Paulo's metropolitan region accounts for 1 out of every 4 dollars produced by our country, which means that the region's directly leveraged GDP is equal to the entire GDP of several Latin American countries.

Just this month, at the global economic forum held in São Paulo, which addressed the Mercosur, the free trade agreement among South America's Southern Cone countries, I had the opportunity to approach His Excellency Mr. Carlos Menem, the President of the Republic of Argentina, and emphasize our city's natural vocation to be the capital of Mercosur. In less than ten years, this flourishing common market has al-

ready become the third largest free trade zone in the world. Besides the formidable social and economic indicators presented by São Paulo, it must not be forgotten that our city is not only the core of one of the biggest industrial complexes in the world, but is also the capital city of the State of São Paulo, Brazil's most developed state. The State of São Paulo accounts for three out of every ten dollars produced by Brazil, as well as for nearly half of Brazil's GDP, if aggregated production values alone are taken into consideration. The city of São Paulo is the major highway-railway junction in Central and South America. This network is comprised of ten major highways, an enviable railway system concentrated in Brazil's southeast region and the neighboring port of Santos, the biggest port in the Southern Hemisphere. Our logistic infrastructure includes three airports - an international airport, one for domestic flights and the third for private airplanes. In the last twenty years, the economy's tertiary sector surpassed the transformation industry, which in the first fifty years of our century propelled São Paulo's development. The city became the decision-making center for businesses, the headquarters for the financial system and the site for the rendering of specialized services. São Paulo City is home to 120 banking institutions with 1620 branches, where half of the country's demand deposits are placed. São Paulo is a major consumer center because of its vast population, whose average per capita income is close to four thousand dollars, double that of the country's average per capita income. This generates a significant number of business-related trips, events, conventions and trade shows supported by a reliable infrastructure comprised of telecommunications systems, hotels, cultural events and first-class restaurants. Indeed, our

city has just been named one of the world's eight gourmet capital cities.

As regards cultural events, this month we sponsored 2,300 related events, which stands for over 70 cultural events a day - and I am referring only to cultural events sponsored by the city government. Conventions, trade shows and meetings on state-of-the-art technology display one of our city's new features. To exemplify, FENASOFT, the national software trade fair, is open for public viewing. One million people visited the one-week long trade show this year, and related business deals closed during the event amounted to 1 billion dollars. The financial and service industries have been added to the city's original vocation as an industrial and commercial center. This is evidenced by the fact that one out of every two workers in our city is employed by the service industry. Traditional industry employs 22% of our labor force, and the retail industry employs 18%. Commercial activities have played an important role in the opening up of new job positions in São Paulo. Suffice it to say that no less than 30 shopping centers opened up in the last few years. As we are very much aware of how important commercial activities are to the city, we have taken measures to encourage this sector to the highest degree. Two examples of our effort is the progressive elimination of restrictions to retail activities on Sundays and incentives for weekend tourism, similar to the program implemented in Rio de Janeiro. To this effect, my administration has taken steps to convince airline companies and hotel chains to grant up to 50% discounts on weekend rates. Such discounts are already in force. São Paulo offers 4250 de-luxe hotel rooms in 150 international level hotels. It is very clear to us that the hotel industry, which has been developing at full speed, given our city's condition as a major business center, is one of the sectors on which the city administration must concentrate its efforts. I justify this condition by saying that the city of São Paulo probably generates more jobs per dollar invested in the tourism industry than any other city. Besides, such investments are being made in a clean and environmentally correct industry.

The continuity of administrative policies, ensured by the people who voted in the municipal elections less than a year ago, has allowed my city administration to prepare strategic policies allowing us to deal with one of São Paulo's most crucial problems: traffic and public transportation.

About 4.5 million vehicles, 25% of Brazil's entire fleet, circulate through our 16-thousand kilometer roadway network. This represents nearly 1 automobile per 2 inhabitants, the same as in France, 60% of the city's labor force commutes to work by car, and one thousand new cars a day are added to the city's fleet. This has obliged us to take a number of measures to revert the situation. Both my administration and the previous administration have invested heavily in improving and modernizing the city's roadway system. Investments are being allocated for works, especially in the city's south and east regions, which have been attracting numerous real estate developments. It is the responsibility of the city administration to optimize the use of the existing roadway system as well as invest in public transportation, especially in the 250-kilometer railway system and the 45-kilometer subway system. Both systems are managed by the state government and are also being modernized and extended. Although our subway system is certainly not extensive enough for a

city the size of São Paulo, it nonetheless consistently obtains one of the best global efficiency rates. The subway system accounts for 25% of the daily trips made in the city. The city administration is also responsible for the management of the bus transportation system. which transports nearly 6 million people a day. Investments in this sector are focused on subsidized bus rates and on the construction of a medium-sized transportation system to transport up to 20 thousand people per hour. This medium-sized transportation system will fill the gap between the traditional bus system and the train and subway systems. I am referring to a system which will use light vehicles on tires, the VLP. The first line out of five is expected to go into operation next year, at a cost per kilometer which is ten times lower than the cost of the subway.

This is fertile, safe and productive terrain for investments, especially because of the population's competency. Only 11% of our entire work force carries out jobs that do not demand qualifications. Excellence in performing planning and management functions, as well as technical qualifications, are attributes that characterize our work force. It is no coincidence that São Paulo is also a reference center and a center of excellence as regards medicine and health care. The city has a number of major health care and medical research centers. The city administration, well aware of the city's high-quality medical standards, has implemented a public health and medical care system named PAS, Plano de Atendimento à Saúde. PAS has been approved by 90% of the population that has resorted to its services and has been acknowledged by the Harvard Medical Institute as an adequate model for public health and medical care services. Other cit-

ies and countries are exploring the possibility of implementing the PAS System. The city administration also looks after education. Over 300 thousand students are enrolled in universities, 750 thousand students, in the 15 to 18 old age group, are enrolled in high schools and 3.3 million students, in the 6 to 14 age group are enrolled in elementary schools. What other city in the world can proudly exhibit such figures? It is important to point out that many of these students are enrolled in free public schools. The city administration also provides preschool education for 400 thousand 4 to 6-year old preschoolers and has traditionally taken on the obligation of providing better conditions for working women. Most of São Paulo city's adult female population is comprised of professional women who are taking up job positions in our labor market. Hence, the city administration operates and maintains a chain of day care centers that provide care for approximately 200 thousand children up to the age of four. It has often been said all over the world that the quality of public education leaves a lot to be desired and teachers are not appreciated. The city of São Paulo is proud to announce that it has done its utmost to reverse such opinions. As an example, stateof-the-art information technology resources are being provided for the city's public schools and 800 thousand students.

In regard to public school teachers, their salaries were raised by one third. As for the environment, São Paulo pioneered the establishment of a secretariat to look after environment related issues. In addition, we are rationalizing the use of automobiles and implementing pollution emission controls. We have progressively increased the number of greenery areas in the city and implemented measures to protect the

Capivari and Monus river basins. The World Bank is partially funding the control of the Guarapiranga basin's water sources that supply water to the city's population. Garbage disposal, always a problem in major cities, is being tackled through the installation of non-polluting incineration equipment.

I would like to end my presentation on São Paulo by announcing the forthcoming establishment of a development agency, under the municipal secretariat of planning, with the objective of attracting capital and generating new business opportunities. This development agency will offer the operating conditions, flexibility and tax incentives to investors who have not yet discovered the second biggest city in the world. Our magnitude, which is that of Brazil as well, requires global partnerships, not only because the world is attracted to São Paulo but because São Paulo has an international vocation. Do not miss the opportunity of being in São Paulo, because if you do, you will miss the chance of participating to the fullest extent in this eternally new world.

Celso Roberto Pitta do Nascimento, 51, was elected mayor of the city of São Paulo with 3,178,330 votes (that is, 62,28% of total number of the votes). He has a degree in Economics from the Federal University of Rio de Janeiro and holds a Master's Degree in Transportation Economics from the University of Leeds (England, 1970/1971). He was engaged in various executive and consulting activities concerning transportation projects for both public and private enterprises. Pitta

began his professional career in 1965 in the Planning Ministry's Technical Department. He was also Planning and Control Director at the Mauá shipyard and Professor of Maritime Transportation Economics at the Post-Graduate School of Economics of the Getúlio Vargas Foundation.

In addition, he was Director of the Casa da Moeda (1982/1985) and Financial Director of Eucatex (1987/1992).

In 1993, he was appointed as Secretary of Finance of the city of São Paulo during Mayor Paulo Maluf's term in office, a post that was combined with that of Planning Secretary.

Sir Peter Heap

Advisor to the HSBC - Investment Bank Member of the International Comiteé - BIC British Industry Confederation - United Kingdom

"The British Industry and the Opening of the Brazilian Market"

Mr. Chairman, Mr. Sidney Sanchez, Minister of Health, Minister of Transport, the Mayor of São Paulo, other distinguished guests, first one or two apologles. My apologies first to the people on this side of the audience, who will wonder if I am here at all because I am hiding behind this computer, but if I put my hand up from time to time you will see there is a real person here. Secondly, I apologize for speaking in English. I did not realize, before I came from London to Monaco to speak to an audience about Brazil, that I will be talking to an audience comprised of Brazilians and so I did not realize that I should have been speaking in Portuguese, so I prepared it in English. Thirdly I might, I think, clarify my titles and qualifications because there's certain confusion thereabouts, I am happily not a professor and I am not a doctor though I would not mind being either if anybody has any on offer, I am not a member of the advisory board council of the HSBC Hong Kong and Shanghai Bank because I do not think that exists. I am an advisor to the board of the HSBC Investment Bank. I am also a member of the International Committee of the Confederation of the British Industries and I was, a while ago, British Ambassador in Brazil and incidentally the chairman of the first session this morning. Michel Levêque, now Minister of State in Monaco was, when I was British Ambassador in Brazil, he was the French Ambassador in Brazil. So, it was nice to meet an old colleague. Because I hope that in the afternoon session there will be some gathering session with some wine or whatever, with Brazilian wine, I hope. I will try to read quite fast, so you will have to listen quite fast.

The British presence in Brazil - like the British presence in much of South America - goes back a long way. It is also gone through a number of differ-

ent phases. The relationship between South American countries, including Brazil and Britain, have rarely been hostile - and if so only very briefly - , but have waxed between a close and warm and productive relationship to a more distant or but still whole friendly relationship. Although it is changing rapidly as Latin America opens itself to the outside world, until recently many people in Britain did not know well what was going on in South America. Nevertheless, rising out of the sea of ignorance, were certain peaks of knowledge that almost everyone knew. One of these is that British companies and British people played a big part in developing the infrastructure and the utilities of much of the continent. Railway, water, electricity, ports were very often developed by British engineers, by British entrepreneurs; many of whom bought the bulk of the labor force with them.

Few, if any, of these firms survived, at least in Brazil, but some of the people of British origin are there because their grandfathers or great-grandfathers went out from Britain to engage in such work. Most of these British workers, however, returned to the United Kingdom after their contracts ended and the job done.

The British populations in all Brazilian cities were very much bigger at the turn of this century than they are now. There are British graveyards in most Brazilian cities, testifying to the size of those populations. But they are now often overrun and dilapidated because the British communities there are now too small to sustain them. Other earlier immigrants from Britain went to Brazil to engage in agriculture, finding then, as now, that Brazil had ideal conditions for growing so many of the world's crops or raising cattle. Why did that flow of British immigrants to Brazil dry up as the 20th century

progressed and as other countries in Europe sent large numbers to Brazil? I have given one reason: that there were not many immigrants. They went to do a particular job and when that job ended they returned to the United Kingdom or moved on. Another was that Britain began sending people to Canada, Australia or New Zealand in large numbers where there were no language problems and where educational, legal and constitutional systems were familiarly comfortable. However, the real spur to most of the current British investment in the commercial and industrial sector in Brazil was, ironically, the closed economy. A policy of the middle of this century and beyond, many of Britain's big multinational companies, finding that they could not export their products from the United Kingdom to Brazil because of the prohibitions or prohibitive tariffs on imports, decided that, if they could not beat the system, they could join it. Many of the big British multinational companies in this period established a presence in Brazil - often a very strong presence - either by buying and then expanding an existing company or by starting from scratch with greenfield investments. Moreover, since the political and cultural climate of those years of the closed economy was to encourage Brazilian firms and to discourage the foreign companies, many sought to play down their British origins or ownership. While as around the world most multinationals like to use their clout, prestige and the reputation of their global name and global brand, in Brazil they followed another route and used Brazilian names.

Thus the investment of BAT, the British cigarette manufacturer, in Brazil went on to the name Souza Cruz. A majority of Brazilians who smoke their products, which includes most of the best known brands, do



not know this is a controlled and majority-owned British company. The same is true of the products of Reckitt Colman, who makes a big range of household goods with household well-

known names because in Brazil they are known as Atlantis. There are certainly many consumers and perhaps even many of the supermarket owners and other retailers who buy from them and do not realize that this is a huge manufacturing operation, with large factories in Brazil as well as elsewhere in the world that is British-owned. Those who buy glass from Blindex - also with several major factories in Brazil - probably do not realize that they are really buying from Pilkington, another British-based and owned multinational. Of course the reason for these disguises has now largely disappeared. The political and economic climate has shifted and now foreign companies, foreign investments and even imports are welcome. As a consequence, the multinationals, including those in the example I have given, are beginning to use their global name more and more, hoping that the Brazilian consumer may favor them for having international standards and international brands. I should have two footnotes: it was not only British companies that followed this route, so did many other companies from overseas; secondly, there was never an attempt nor intention to deceive. Foreign ownership was readily available to the public domain and was available for anyone who wanted to look - it was more a question of marketing; it paid for a long time to be seen to maximize the Brazilian content of a company and to play on the foreign connection.

Another feature of this period of high British investment in Brazil was that the Brazil of this period often did not command the confidence of main boards of companies in Britain. The political ups and downs leading to a prolonged period of military rule and especially the very long run of very high inflation lasting until 1994 meant that even those companies with big investments in Brazil - and which were receiving big profits from Brazil, for Brazil was never as restrictive as many countries on the repatriation of profits from foreign investments - were still reluctant, at main board level, to put significant new money into the country. The results of this was that British companies in Brazil had to grow internally. Happily, profit levels were often such that this was not a problem. The companies continued to expand and grow, but their extensions and new plants and new factories were financed from local profits and not by new money from U.K. group of headquarters, not even by local bank-borrowing; because with hyper-inflation this also was nearly impossible. Nor was this only a feature of the manufacturing sector. It was also often a feature of the service sector. A significant British insurance company, whose Brazilian operation began in the 1930's started up with an investment of 25 thousand pounds. That was the first and the last sum ever to pass from head office to the Brazilian subsidiary. Today that Brazilian subsidiary has an asset base of nine figures, approaching ten and remits nearly two million pounds a year to its U.K. head office, not bad on an initial and total investment of 25 thousand pounds . And the growth was all internally financed.

I spelled it out not only because of its

historical interest and because it helps explain something of the pattern of British, and indeed more often all foreign investment in Brazil, I spelled it out because some of these factors can often cause us to significantly undervalue the level of foreign investment in Brazil and the contribution that is made to the Brazilian economy. Many figures for foreign investment in Brazil, including those normally used by the Central Bank, quite understandably only quote the figures for new money brought into the country to start up or expand the business. This, therefore, should not be confused with the very much higher figures - enormously higher figures - for the actual asset value of those investments.

When I headed the British embassy in Brazil, we conducted an exercise to try to get an idea of the divergence between those two figures. We asked a number of the U.K. multinationals for the total value of the Brazilian enterprises, from even a very small number of large companies, which is much higher than that in the official figures for total British investments in Brazil. And no doubt the same will be true of the investment by other industrial companies that have invested heavily in Brazil: United States, Japan, Germany, Italy and France. For the board rooms of company headquarters in those countries too, could not understand how an economy could survive when inflation ran at hundreds and then thousands of percent a year. They thus starved their subsidiaries of new outside investment, forcing them to grow out of their own profits. Now of course, most of these factors have changed. Brazil is no longer a closed economy. Foreign investment is welcome more than before. Tariffs have come down dramatically and other import restrictions and prohibitions have largely disappeared. Those areas of the economy formerly reserved for Brazilian companies and often state-owned companies such as petroleum exploration, gas exploration and telephone companies are being opened to outside investment with dramatic results. Above all, foreign investment confidence has undergone a change, with a very dramatic reduction in inflation levels to those equaling those of other major industrial countries.

Plenty of other speakers have elaborated, or will elaborate, on the nature of the reforms that have happened in Brazil, so I will not repeat those details, but will concentrate on their own impact on British investment. So far I have spared you figures, but it is time to introduce a few. According to the Interamerican Development Bank figures for 1994, the U.K. was Brazil's second largest investor in terms of direct foreign investment stock, with a total of US\$11 billion. That was a long way behind the number one, which is not surprising the United States, with a total of US\$ 74 billion, with Germany in third place just behind Britain's total. The next largest international investors in order of size, or, in third place, rather surprisingly, Switzerland, with Japan, Canada, France, Netherlands, Spain and Belgium following in that order. I repeat that these figures from this source are only available up to 1994, so with the huge surge of new investment now taking place in Brazil, there is probably some current lockeving for position among those countries. But I would expect the order to be roughly the same and the British position to remain very strong.

Another source of figures for inward investment in Brazil is, of course, the Brazilian Central Bank. It showed a British investment in 1995, which totaled US\$ 4.2 billion . This figure, however, would be the total of new capital investment brought in from outside and ignores the growth generated by internal investment which

I have described. New direct investment in 1995 from the United Kingdom totaled US\$ 717 million, most of it coming from five companies: BAT, ICI, RTZ, Glaxon, Pilkington, all British-owned British multinationals. And to bring the figures just a little more up to date, we have to use U.K. government calculations for new direct British direct investment in Brazil and these give a figure of US\$ 1 billion for 1996 and - this is revealing - of twice that - US\$ 2 billion for British direct investment in Brazil in the first seven months of 1997. Of that US\$ 2 billion, approximately half comes from one source, the purchase of Banco Bamerindus by the HSBC group, to become Banco HSBC Bamerindus, a bank with some 24,000 employees and 1,300 branches. And I might divert from the Brazil scene for a moment to say that the HSBC group, the world's largest bank by many measurements, has invested something like 2 billion dollars this year in Latin America which includes not only the hundred per cent purchase of Banco Bamerindus in Brazil but, in addition, the 100% purchase of Banco Roberts in Argentina, the increase in its stake in Banco Santiago in Chile - from 3% to 7% - , the purchase of a 10% stake in Banco do Sul in Peru, and the taking of a 20% stake in Banco Sulfin in Mexico. All of that in less than 6 months.

That one large banking group, and one noted for its caution and conservatism at that, can move into Latin America in that way, in such a short period, itself speaks volumes for the new confidence that the world feels about recent developments throughout the continent, and as believed by the HSBC group, that the changes and reforms are permanent and will remain a lasting feature of the landscape.

Moving back to other current British investment in Brazil, the current figures, I think, are impressive. The investments currently under way, or recently

announced, and within that US\$ 2 billion for 1997 so far. are, including an investment of US\$ 300 million by RTZ, the mining group; US\$ 100 million by BAT; US\$ 600 million - already well established there; US\$ 600 million by Lloyds Bank; US\$ 72 million by Smithkline Beecham; US\$ 60 million by ICI; US\$ 25 million by United Distillers and so on. By British government calculations, this amounts to around 28% of the total new direct investments in Brazil in the first six months of the year coming from the U.K., which, if confirmed, is very much higher than any figure in recent years or decades in terms of percentages. Or indeed in terms of absolute figures. By the same calculations, investment from the United Kingdom in Brazil in 95/96 only follows the United States, Germany, Japan and France. So there's been a very significant increase in the British investment.

Of course the new direct foreign investment is pouring into Brazil from all over the globe and some of the figures are quite staggering. Announced new investments in the vehicle sector amount to US\$ 19 billion by the year 2000, which is likely to double Brazil's capacity from its present 1.8 million units a year to around 3.4 million units. Whether Brazil can use or sell locally, or through exports, that level of output is an interesting question. But there is little doubt about the question of current investment. Most of it is already under way. Then there is a new level of investment in the telecommunications already planned to be launched with the Band B cellular privatizations, but which will become huge when the rest of the system reaches private hands. Then there is the opening of the oil sector. This, like many things, is not going quite as quickly as many oil companies hoped, but once blocks are allocated later this year, then the investments coming into Brazil will be

dramatic.

One Anglo U.S. company with whom I am associated and who runs a Brazil operation from the United Kingdom plans to invest US\$ 2 billion in Brazil by the year 2.000, assuming they get the blocks they are targeting, and many of the other international oil companies are planning imminent investments on a similar scale and, incidentally, once the oil exploration and production begins - and that should be quite a quick process, because the blocks that are going to be offered first are already well chartered by Petrobrås, then the impact on Brazil's trade balance, which is one of their current and most serious problems, will be very profound and will instantly, or within a very short number of years, cut out one of the bigger negative factors in that trade balance.

A few other comments on the current investments seen in Brazil. So far I have talked largely of straightforward new investment largely by foreign manufacturing companies, most of which have a significant presence in the country already, but which are now expanding in the view of the new economic climate. Now, there are other elements of this new foreign investment: one is the privatization program. The outside world is not, I think, yet truly well aware to what is happening here, and this is for a number of reasons. It has not gone entirely smoothly; it is been done in smallish pieces - for example, the steel sector was not privatized as one giant steel conglomerate. It was already split, was still in state hands, in too many different entities, and these were privatized separately. Furthermore, Brazil's privatizations have rarely involved major share issues, or sales, with all that that brings in terms of intense and prolonged publicity, brochures, full scale advertisements, articles in the international press, including the Wall Street Journal and Financial Times. They have mostly been auctions, at relatively short notice, held sometimes after several postponements and often lasting only a few minutes. So, for these factors, the outside world has been less aware of Brazil's privatizations than those in many other countries, including those in some of Brazil's smaller neighbors. Not only has the world been less aware, it has also participated less, at least until very recently. Thus the overseas involvement in the newly privatized companies has not been high, and in Britain's case it has been lamentably low. The involvement by companies from the United States, from Spain and from elsewhere has been higher; although even there, not very high, since most of the buyers have been Brazilians.

As the Gazeta Mercantil put it as recently as 6 of August, privatization has had a negligible contribution to the entry of international resources in the country. Nevertheless, the investments involved have been impressive. Some US\$ 16.9 billion raised from 53 privatizations up to May of this year, with company Vale do Rio Doce alone yielding US\$ 3.2 billion earlier this year.

Another significant source of new foreign capital comes from mergers and acquisitions and these two are booming and bringing in significant new foreign capital, and so far much more than the privatization program, as international companies decide that their best route into Brazil is to buy a readymade business and expand it from there. In the last six years, company mergers and acquisitions were responsible for transactions totaling US\$ 33 billion, of which US\$ 20 billion came from abroad. In the first semester of this year, mergers and acquisitions yielded US\$ 2.3 billion

and according to a KPMG Peat Marwick poll, from 1992 to this year's first semester, there were 1,005 mergers and acquisitions, of which 567 were between Brazilian and foreign companies. From 1993 until June, the two leading industries involved in these transactions were banks and food and beverages, with the financial sector taking first place; that was in large part because the HSBC purchase of Bamerindus, taking over first place from the food and beverage sector which held that position since 1992.

I was asked today to talk about the British industry and the opening of the Brazillan market and I have concentrated mostly on investment, the new opportunities, the size of the new investment flow and Britain's contribution to that as well as touching some of the reasons for the growth. Let me now talk briefly about Britain's trade with Brazil, for that is important, with some lessons to be learned.

It will be no surprise that, since the reform of the last two years, Britain's exports to Brazil have been increasing rapidly. Using U.K. government figures, U.K. exports to Brazil were only, in pounds, £ 272.000.00 in 1992, but rose by more than threefold to 1996 to £ 847.000.000. This year to July, the figure was £ 660.000.000, so there's every chance that this year Britain's exports to Brazil will reach one billion pounds for the first time. Sadly the growth of Brazil's exports to the United Kingdom has not matched this growth in the other direction. Brazil's exports to Britain in 1996 totaled C 983.000.000 - having risen only from C 886.00.000 in 1992.

In short, while Britain's exports to Brazil rose more than three times since 1992, Brazil's exports to the United Kingdom have gone up by barely 10% in the

same period. Thus the trade balance which was in Brazil's favor to the tune of \pounds 613 billion in 1992 was only in Brazil's favor by a C 136 million last year and may end up, this year, by being in Britain's favor for the first time in modern memory.

Of course much of this swing is due to the opening of the Brazilian economy while there has been no matching opening on the British side. So, Brazil's reforms have given British exporters, and of course the exporters of many other countries, an opportunity that they have been pleased to take. But Brazil, for its part, could do, I suspect, more to keep that trade gap in its favor. It could send more trade missions. And this is something that I and your admirable and excellent Brazilian ambassador in the United Kingdom have discussed. And he was telling me recently that while 8 British trade missions who visited Brazil so far this year, there has only been one mission from Brazil and that only last week to the United Kingdom. From Brazil you could explore areas of exports hardly touched so far. The British buy masses of Colombian flowers, Caribbean fruit, Argentine and Chilean wine, but relatively little of any of those items from Brazil. Also, Brazil's higher technology items could surely make it in the United Kingdom to a greater extent than at present. If Fiat cars are exported to Italy, and Embraer aircraft to the United States, I suspect more could be done to sell such items in the United Kingdom. The trade picture is in many ways satisfactory, but I have always held that exporting is a bit like the comments that figure on school reports. However well you do, whatever level you are at, the bottom line is always that you can do better.

I was asked to focus my talk on the response of the British industry to the opening of the Brazilian market. Of course, much of what I said re-

lates not only to British industry, but to that of much of the rest of Europe and of North America and Asia too. The important point, however, is that the opening of Brazil's markets brings benefits to all. To British industry for investing in trading has brought many opportunities. To the Brazilian consumer it brings benefits not only of the availability of world-class goods at world-class competitive prices, but it also brings the guarantee that Brazilian domestic manufactures are learning to compete with the imports, and will themselves become world-class pairs able to sell well on world markets. And thereby regress, and eliminate, and reverse the adverse trade gap that was an inevitable result of the opening of the markets to foreign goods after such a long period of a closed economy.

Finally, I have made no specific mention of Mercosur, but no comments on trading and investing in Brazil today is complete without an acknowledgment of the importance of Mercosur to the economies of the participating countries. The rates of growth in trade between them is well known and is phenomenal, and that development too, as well as the other reforms that have taken place in Brazil, makes it a country with which it is additionally attractive to do business. I have deliberately not dwelt on the details of the reforms that have taken place in Brazil, for others will do that, but I hope I have shown that these reforms are reported by the rest of us and have led to dramatically increased trade and investment, in which Britain has played its full part. I hope we have heard the last of the tired old joke about Brazil being the country of the future and always will be. I have consistently advised investors and exporters from the United Kingdom not to make their decisions based on what they expect the future of Brazil to be, even though that may give them a very large bonus. Base it on the here and

now.

Sir Peter Heap was born in 1935. He studied Politics, Philosophy and Economics at Oxford Merton College. Since September 1995 he has been a member of the Advisory Board of the Investment Bank HSBC. In the course of his diplomatic career, Peter Heap was posted in Dublin, Ottawa, Colombia, New York, Caracas, and London. He was Trade Commissioner in Hong Kong from 1989 to 1992 and from then to 1995 he was the British Ambassador to Brazil. At the end of 1995 he resigned from the diplomatic service.

Since 1996, he has been the Chairman of the Brazilian Chamber of Commerce in England and a member of the London Committee of the British-American Chamber of Commerce.

C. Fred Bergsten

Director of Institute for International Economics - USA

"The Future of FTAA and its Relationship with Asia and European Community"

Peter Heap started with an apology for not being a professor and not being a doctor. I will start with an apology for being a professor and being a doctor. But I will try to do my best anyway.

Mario Garnero mentioned this morning that I had had a long trip here yesterday from China, which is true, I in fact did not even start in Beijing, I started in Wuhan because I had spent the previous three days on the Yangtze River traveling through the three gorges and seeing the beginning of the Three Gorges Dam. Now it may surprise you that reminded me of Brazil and the reason of course was that by far the largest dam in the world now is Itaipú. I visited Itaipú with the Brasilinvest group about fifteen years ago - it is good to be back with friends from Brasilinvest - but the Chinese are now trying to do better and the Three Gorges Dam, when complete, will supersede Itaipú, unless Brazil comes up with a new project in the meanwhile that will

go one step better. But just before going to China I had been in São Paulo. I had been in the mayor's city at a conference that he mentioned, the so-called Mercosur Economic Summit, talking not only about Mercosur, but about the topic of that conference, "Economic Integration in the Western Hemisphere". That is a topic which has not gotten much attention so far. Today I do want to address it because in doing so I think I can broaden and perhaps even embellish somewhat further the investment outlook in Brazil. Important as is Mercosur for the broadening of the Brazilian economic sphere, even greater yet will be the extension of the Free Trade Area of the Americas, abolishing all barriers to trade and investment within the entire Western Hemisphere, North as well as South America, thereby it seems to me offering an even more rosy long-term future for Brazil then we are discussing.

Since time is short, let me start with my

predictions by answering the question of where these events are going, and then make a few remarks about what they may mean for Brazil and what I think Brazil's interests and benefits are from this broader set of economic integration efforts.

My prediction would be that we will have a Free Trade Area of the Americas, probably worked out well before

the current target date of 2005 that was agreed on at the Summit of the Americas in Miami back in December 1994. There is in fact coming up next April the second Summit of the Americas in Santiago. The goal is to begin a serious negotiation towards achieving a Free Trade Area of the Americas. My guess is that it will succeed, the target idea for agreeing on the arrangement of 2005 will be superseded and the agreement will be reached before that. My guess is that we will actually have a Free Trade Area of the Americas somewhere between 2010 and 2020, which is not that far away, maybe on the order of fifteen years out.

I would further predict that this Free Trade Area of the Americas will basically be worked out between Mercosur, led by Brazil, and the Nafta, led by the United States. Mercosur and Nafta, I think, will be the two principal building blocks for the Free Trade Area of the Americas, and the lead countries of those two sub-regional groups will be the chief negotiators. Now I also think that all this will occur within the even broader context of substantial new global trade liberalization, probably a new trade round within the World



Trade Organization, starting around the year 2000 and culminating over the next few years. My even more ambitious guess is that the next one or two multilateral efforts in the WTO will lead to something like global free trade somewhere in that period between the year 2010 and 2020. Several of the major regional groups have already set such a goal. One is APEC, the Asia Pacific Economic

Cooperation Forum, that is a group that brings together the eighteen major countries around the Pacific Rim that account for half the world economy. They agreed three years ago to achieve free trade and investment in that area by the year 2010 and I suspect they too will beat the target.

The European Union in its agreement with the Mediterranean countries, the so-called Euro-Med Agreement, have also made a commitment to achieve free trade by the year 2010. And in fact when you add up all of the regional commitments already in place - the European Union, Nafta, Mercosur - and the others that have been committed politically, like APEC, and the Free Trade Area of the Americas, what you discover is that almost 70% of the world trade is already free or in route to being free. And so it is not a much larger step to agree to liberalize trade on a global basis. My guess is that will occur within the next one or two rounds in the WTO, which will occur within the first ten years of the 21st century.

But again, to bring it back to the Western Hemisphere, the key building blocks for any new

global trade liberalization will be the major regional arrangements of which the Free Trade Area of the Americas, APEC, the European Union of course, will be the major driving forces, for a simple reason. Each of those large trading areas will want to avoid discrimination one against the other. The countries of the Western Hemisphere will not want to face continued discrimination. by the European Union or new discrimination by the economic power houses of the Asia Pacific Region. Likewise, the Europeans, as Latin America and Asia, take on the ranks of the fastest-growing countries in the world. The Europeans will not want to face new discrimination in those markets. So they will also be interested in new alobal trade liberalization. So my guess is that what we are going to see over this coming decade or so is a further expansion of global market opening at three levels: at the sub-regional level like Mercosur, Nafta, the ASEAN Free Trade Agreement, and the Mediterranean. Second, the broader regional level - already the European Union, the Free Trade Area of the Americas throughout the Western Hemisphere, and APEC in the Asia Pacific region. And then thirdly, at the global level, through the World Trade Organization. That is the model that I think is likely to occur.

Let me talk now a little bit about how it might occur, how it relates to the Western Hemisphere and to Mercosur, and particularly why I think it offers such additional attractions for investment in Brazil.

Now for this development to occur, two crucial assumptions for our purposes today have to be made. The first is in the United States. As most of you are aware, President Clinton has finally submitted legislation to Congress proposing that they give him new trade negotiating authority to liberalize further U.S. bar-

riers. This is the so-called fast track authority. It is absolutely essential that Congress and President Clinton work out an agreement through which the United States will be able to play again an active role in global trade negotiations. The case for Congress to do so is overwhelming in terms of U.S. interests. Indeed, one of the key reasons is to move ahead with the Free Trade Area of the Americas. President Clinton, of course, took the initiative back in 1994 to launch that specific effort with the Miami Summit. In doing so, he was, however, primarily building on an initiative taken by President Bush who will be addressing the group tomorrow.

President Bush launched his enterprise for the Americas initiative back in 1990 and 1991, with the promise to broaden the Nafta to the Western Hemisphere as a whole. The U.S. interest in pursuing the Free Trade Area of the Americas is indeed one of the primary purposes for which President Clinton has now proposed new negotiating authority to Congress and I think it will be one of the major reasons why Congress will go along and give him that authority before they close their session at the end of this year. It must be recognized, however, that there is opposition to that new trade authority. NAFTA is not popular politically in the United States, because many Americans confuse the NAFTA Agreement with the peso crisis and the adverse economic effects that occurred in Mexico shortly thereafter.

But it is crucial for the rest of the world to understand that if the United States were to fail to achieve that new negotiating authority, then the U.S. negotiators probably would be on the sidelines of trade talks for the next three or four years, and all of the initiatives that I am talking about today would be quite diffi-

cult, if not impossible, to achieve. The second assumption for the purposes of this discussion is that everyone clearly understands Mercosur. As the only American on the program today, the only North American on the program today, I put that forward because sometimes there are views in Brazil, or in South America more broadly, that the United States opposes Mercosur, or is even trying to drive a wedge among the countries that make up Mercosur. Nothing is further from the truth, that is totally inaccurate, and I will try to suggest why. I think everybody in the United States recognizes that Mercosur has already contributed to enormous economic and political progress in Latin America and that is very much in the interest of the United States. Stronger markets in South America are good for the United States. Fewer political tensions in Latin America, particularly between Brazil and Argentina, are good for the United States. There would be no reason for the United States to oppose such developments.

Certainly the United States, having negotiated the North American Free Trade Agreement, or NAFTA, must truly recognize the legitimacy of Mercosur as of the South American Free Trade Agreement. It would be hard to deny any such effort. Indeed, I would personally take the view that Mercosur's negotiations with the European Union are a healthy thing because they remind the United States not to take South America for granted. They are part of what I call the process of competitive liberalization where trading partners are working in different directions, always bringing pressure on other trading partners to get in line, make deals themselves, in order to stay in the competitive race. And so it seems to me the case is pretty clear that an outward-looking, growing, successful Mercosur is very

much in the interest of the United States as well as that of South America itself. That is based on the assumption that Mercosur intends to play its full role in developing a Free Trade Area of the Americas, and indeed global trade liberalization talks in the World Trade Organization, as well as dealing with Mercosur.

I thought Ambassador Azambuja put it very nicely this morning when he talked about open regionalism in South America. On the other hand, if Mercosur were to simply stop with the South American free trade agreement, or customs union, lose interest in negotiating broader arrangements of the Free Trade Area of the Americas type, or in the WTO, then there would be concern in the United States and elsewhere around the world. There would be concern, and has been in the past, if the European Union lost interest or had no interest in negotiating on a global basis but simply sat behind its protective barriers in the European Union itself on a discriminatory basis.

But fortunately, the European Union has always been willing not only to go ahead with its regional efforts but to negotiate on a global basis and bring down its external barriers as part of reciprocal global negotiations. We in the United States would certainly expect that Mercosur would do the same. Not because the U.S. wants it, but because it is in Mercosur's interest. If Brazilian industry or Argentine industry decided that it was in their interest to simply sit behind a protective regional wall in South America, they would simply be making the same mistake on a regional basis that the national industries and policies in those countries had made in the past. We know that the import substitution doctrines of the past turned out to be an enormous failure. They were a mistake for Brazil, they were

a mistake for Argentina, they were a mistake for India and other countries that had pursued them around the world. It would be a little better to do it on a sub-regional basis, as in South America, but in today's globalized world economy, it would clearly be erroneous for any subset of countries, or any sub-regional grouping, be it NAFTA, be it Mercosur, be it the European Union, to think that they could compete effectively in a modern way in a globalized world economy.

And therefore, I have every confidence, that as Ambassador Azambuja said this morning, Mercosur will be viewed as only one part of a multipurpose negotiating strategy in the trade and investment area by Brazil, by Argentina, by the countries of South America. It is critical to remember that Mercosur. like NAFTA, like other regional arrangements, will retain an important identity even as they negotiate away their trade and tariff preferences in broader arrangements, like the Free Trade Area of the Americas or the World Trade Organization. A group of neighboring countries can clearly pursue much closer ties, much deeper forms of economic integration and much closer political relations than can the broader grouping. And so, even if at the extreme we move to a world of global free trade and NAFTA eliminated all its preferential tariffs and Mercosur and other groups did the same, those regional groupings would still have enormous integrity, independence, vitality and still be of great importance to their member countries.

My point is simply to suggest that there is full consistency and compatibility between moving to develop sub-regional groups of the Mercosur or NAFTA type with working out broader trade liberalization arrangements, be it in the Western Hemisphere, through

the Free Trade Area of the Americas, or indeed at the global level, through the World Trade Organization.

So at the end of the day, what I think we do have is this three-track strategy where most countries in the world will be moving ahead at the sub-regional level, at the regional level and at the global level. Now there are several motivations for doing that. One, which is the purpose of this seminar, is to attract foreign investment. Global investment today, as Mr. Heap was saying, with his many illustrations, is mobile, foot-loose and looking for the most attractive investment locations. One way to achieve that is of course to open one's market, but also to provide an attractive location for selling into broader markets. Multinational firms rationalize their global production decisions and look to locate in a particular site which can serve not only that local market but a broader group of countries as well. That is why American firms in the 1950's and 60's rushed into the European Union. Because by locating in one of the European countries, they could serve the entire Common Market at a time when it was the most rapidly growing and dynamic market in the world. That is why, increasingly, foreign firms, multinational firms, will invest in South America, both to serve the Mercosur market, but since it is not all that big, so that they can serve an entire Western Hemisphere market, including North America, which is indeed still the largest market in the world. A second reason is of course to enable industries in those countries to compete globally. What we know from the record now for the last decade or so, is that the countries that succeed in the global economy are those that pursue policies of outward orientation.

The Asian countries are the most dra-

matic successes, but the most equally dramatic progress in Latin America over the last decade since the reform progress got seriously under way is also testament to that conclusion. That is, Latin America has begun to open, reduced its own barriers to trade and investment, begun to participate more actively and fully in the world economy. The South American and Latin American economies too had become at least "little tigers." I happen to believe that Latin America, second only to Asia, is going to be the growth pole of the next ten or twenty years. And one reason is that reforms that have taken place throughout Latin America have exposed it to international competition, provided the competitive impetus to improve productivity and efficiency that we know result from that exposure, and therefore enabled Latin America, and particularly South America, to join the world economy in a dynamic and successful way.

If that progress continues along that kind of three-track strategy that I suggest, then I think there is no doubt that Latin America, and particularly South America, will continue to be a dramatic success story in the years ahead. Therefore, the conclusion is simple. That for Brazil, for Mercosur as a group, including for reasons of attracting foreign investment and further improving their economies, there is a very strong case for pursuing a three-track strategy. Brazil, to be sure, must consolidate, continue and complete Mercosur as soon as possible. Second, building on that success, Brazil must negotiate as a group. With NAFTA and the United States, try the best bargain possible, but aim toward a Free Trade Area of the Americas, starting with the Santiago Summit next May, Indeed, for Brazil, and Argentina, I would add, that it is essential in order to bring down United States barriers to imports from Mercosur. The United States runs a trade deficit now of about two hundred billion dollars per year. There are not very many countries around the world with which we run surpluses. But two of them happen to be Brazil and Argentina. The United States runs an uncharacteristically strong trade balance with Mercosur. And one reason, to put it frankly, is because we have barriers to imports on many of the products that Brazil and Argentina can produce and sell most competitively. You are not going to deal with that problem through Mercosur by itself. But if Mercosur, building on its own consolidation and liberalization, then actively engages the United States in negotiating a Free Trade Area of the Americas, you have a very good chance to get rid of those barriers and expand your market access. The third layer is then the world, through the Global Trade Organization.

Why would that be of interest? Well, that would be of interest because probably the most significant policy to Brazilian and Mercosur exports around the world is the common agricultural policy of the European Union. Fully half of Mercosur exports to Europe are agricultural, and we know that they are deeply cut, severely restrained, by the existence of the common agricultural policy.

It would be nice if you could negotiate a bilateral deal with the European Union to get rid of those barriers, and as I said before, I would encourage such negotiations. But in all candor, I think there is no chance. I do not think the Europeans could possibly see enough advantage in opening up Mercosur to their exports to generate the political support necessary within Europe to get rid of their barriers on agricultural exports to them. What is needed to deal with that problem is another

major global trade negotiation where the United States joins with Mercosur, and with Australia and many others to bring pressure on the European Union to offer concessions to their exports and manufactured trade to the world's biggest markets, in order to finally bring an end to their discriminatory practices and import market barriers of the common agricultural policy.

And so it seems to me that the trade policy strategy for Brazil and Mercosur as a group is clear. As I say, consolidate Mercosur itself, negotiate a free trade area of the Americas, pursue the next round or rounds of global liberalization in the World Trade Organization, perhaps ultimately leading to something like global free trade early in the 21st century. That would indeed make Brazil with all of its enormous attributes, both physical and human, into one of the most attractive investment sites in the world as a whole.

C. Fred Bergsten, 56, holds M.A, M.A.L.D. and Ph. D. degrees from the Fletcher School of Law and Diplomacy. Mr. Bergsten has been Director of the Institute for International Economics since its creation in 1981. The Institute is the only major research institution in the United States dedicated to international economic issues.

During 1969 and 1971, Dr. Bergsten served as Assistant for International Economic Affairs to Dr. Henry Kissinger at the National Security Council. He was also Under Secretary for Monetary Affairs during 1980-1981,

representing the U.S. at the G-5 Deputies and helping prepare the G-7 Economic Summit at Venice.

Dr. Bergsten testifies frequently before Congressional committees and often appears on television news programs. He is quoted widely in the press and has been cited, among other things, as one of the "Ten People Who Can Change Your Life" (USA Today) and "a possible Treasury Secretary" (Washingtonian).

Inocêncio de Oliveira

Leader of the Majority Party - House of Representatives-Federal State Representative - Brazil

"The Brazilian Constitutional Reform"

During this week's talks, everyone should have gained a general idea about Brazil's image to-day. Therefore, I shall not spend time on drawing a geopolitical, social, cultural or anthropological picture of the Brazilian subcontinent, its dimensions, potential and realities which are well known and widely heralded. I would like to address only the political aspects, notably, the issue of constitutional reform as related to the Executive Branch, which submits bills to amend the Constitution and as related to the direct initiatives proposed by members of the two houses of the Brazilian Congress.

Reform, as the term itself suggests, is change in form, but in Brazil we go further. Besides the form, we are interested in changing the content of the Constitution, covering matters dealing with the basic aspects of citizenship and with the present and future structure of the State. Reforms are changes in form and content understood as processes, that is to say, they

are actions underway, unfolding over time, rather than physical, immutable rules, clauses carved in stone, which prevent the progress required to adapt to social and economic change in a world in constant evolution, where everything is facientum and not factum. That is why we hear many voices in the Brazilian Congress saying that changes to the Constitution must accompany pari passu progress in technology and changes in society's values, since we cannot, in today's world, remain static and rigidly conservative, when research and innovation bring new challenges to social harmony and to the very concepts of life in society.

But this awareness of modernity must not, and cannot, without affecting members of society, set ethics aside, which is the foundation of political action and the basis of social harmony. I believe that any political act is an ethical act, and it is thus, as Presiding Officer of the Chamber of Deputies and as leader of my party in Brazil, the Liberal Front Party, that I have

endeavored to guide my behavior. Allow me, gentlemen, to give you a brief summary of this process of reform, in form and content, of the 1988 Brazilian Constitution, that is in course in my country's National Congress.

In January 1987, a Brazilian Constitutional Convention met once again, the seventh time in the history of the country. Many people have already pointed out how different it was compared with the others. By October 1988, this assembly had brought together the representatives of the Brazilian nation. In



the beginning, because the electoral base for choosing the country's representatives had been definitively expanded, there had been restrictions on the right to vote that had resulted in a small and unrepresentative electoral body. Up to the end of the nineteenth century the vote was denied to women, the illiterate and to those who could not prove they had enough income. Women were granted voting rights in 1932. A constitutional amendment in 1985 granted the right to vote to the illiterate and, optionally, to those over sixteen years age. Thus, 69 million voters appeared at the polling sta-

tions for the election of November 1986, a much higher number than those who had chosen their representatives on previous occasions.

At the same time, telecommunications allowed the drafting of the constitution to become an institutional arrangement motivating public opinion as a whole. On television, for example, news programs brought 60 million spectators together, reaching out to practically all of the voters and raising awareness of what was being discussed at the Assembly. Two other peculiarities made the drafting of the latest constitution a unique occasion in our history. No limit was placed, as had previously been done, on popular participation by the electorate in the initial phase of preparation of the charter. During the 87/88 Assembly, popular amendments could be submitted and a computerbased support system was created, under the responsibility of the Senate's data processing center, which set up a specific database to capture and store approximately 80,000 suggestions coming from the most diverse segments of the Brazilian population, and made available to the members of the Assembly.

At the Republican era's first constitutional convention in 1890/91, a group called the Commission of 21, made up of representatives from all the states of the federation, initially discussed the constitutional bill submitted by the Executive to the Legislative Branch. In 1934, a constitutional commission was charged with the mission of undertaking a preliminary analysis of the bill prepared by the Executive. In 1946, a 37-member commission had exactly the same task. This commission was divided into sub-commissions that tried to carry out the constitutional work, submitting it again to the larger commission before it was taken finally to

the plenary assembly for general discussion. In 1987, there was a sharp reaction from congressmen and senators who did not wish to be sidelined from the initial steps of the work, and this resulted in an innovation: 24 subcommissions were created absorbing all the members of the constitutional conventio. These sub-commissions, each provided with a table and a spokesman, heard representatives of lobbies and specialists on specific themes, and shaped the final design of the project. Subsequently, the sub-commissions were combined into eight commissions under specific topics, which reviewed the initial work. Each commission then drafted one eighth of our present Constitution.

The Brazilian charter's chief characteristic when it was published on October 5, 1988, was the way it sought to balance rights and augrantees. Marshall's contribution to the field of citizenship is widely known. It distinguishes three elements: a civil element gathering together rights in respect of civil liberties, such as the right to life, liberty and property; a public element, involving what the Romans called jus sufraai, the right to elect, and jus honorum, the right to be elected; and lastly, a social element that Marshall defined as all rights, from the right to a minimum level of well-being and safety, to the right to take part extensively in the civil heritage, and to live as a civilized being in accordance with the standards of society. The 1988 Constitution's approach to human rights could be classified as Marshall-like, since it distinguishes precisely these three parts or elements of citizenship. Article Two of the Constitution provides for fundamental rights and guarantees; Article Five deals with individual and collective rights and guarantees, Article Six, on social rights, objectively sets forth rights in regard to health, work, leisure, security, and social security, maternity protection, and support for the homeless. And Article Fourteen deals with political rights in rigorous detail and makes the necessary distinctions, in contrast to those established by earlier constitutions.

The 1988 Brazilian charter also innovated in dealing with the possibility of its own reform, provided for in two ways: through constitutional amendments, and through revision. Constitutional charters must be safeguarded from easy and frivolous revision while requiring good criteria to allow for timely and appropriate reforms. In this context, the constitutional convention of 1987/88, in another innovative step, provided for a compulsory revision after five years.

Polemics apart, it is true that, for the first time in Brazilian constitutional history, a compulsory revision was imposed. This is uncommon too in the constitutional history of other countries. One exception was the Polish constitution of 1921, which provided for a revision every 25 years by the Diet and the senate, with decisions taken by the two houses in joint session by simple majority. Everything suggests that the Brazilian inspiration for the revision provisions came from the Portuguese charter of 1976. Nonetheless, in contrast to the Portuguese model, the Brazilian Constitution instituted a single revision requiring an absolute majority of the members of the National Congress as the quorum.

The 1987/88 constitutional convention was cautious in regard to the innovations the charter introduced, and laid down that the revision should be conducted five years after the publication of the constitutional text. It certainly wished to see its ideas and designs confirmed in time. The assembly also expected that the country's development and international con-

cord would ratify the new approaches included in its text. Another aspect further supported the need for a revision: the fact that it was a plan type of constitution. This type of constitution also harks back to the 1976 Portuguese charter, which intended, as professor Manoel Gonçalves Ferreira Filho tells us, to build a program in consonance with society and with direct government action to establish a permanent political philosophical underpinning, which would be imposed on any and all political initiatives undertaken by the government. The posture of these charters is the programming of deep social change. Hence they adopt, like the Brazilian Constitution of 1988, legal mechanisms to impose their programs, such as the injunction order and unconstitutionality by omission. The backdrop of such constitutions has an ideological tinge to it, yet, the changes the world has witnessed since 1989, including the fall of the Berlin Wall, the reunification of Germany, the end of the Soviet Union, the dismantling of Eastern Europe, the opening of China to a market economy, the collapse of pure socialism in Albania and Cuba, were a warning to Brazil and reinforced the view that the Constitution deserved, and still deserves, to be revised, as wisely provided for by its drafters, lest we risk trapping ourselves in a bygone and outdated world.

Unfortunately, the revision provided for in 1993 did not take place to its fullest extent, in spite of the public spiritedness that always inspired Brazil. It was limited - so as to adhere to the constitutional calendar - to the approval of six amendments, which have no effect on our model of democracy nor any on our economic order.

In 1995, after six years, President Fernando Henrique Cardoso submitted a set of reforms to the National Congress. This set can be divided into two groups: economic reforms, which comprises changes to the concept of national and foreign capital and the elimination of state monopolies on piped gas, coastal shipping and telecommunications monopolies; and the so-called reforms of the state, comprising civil service reform, social security reform and reform of the tax system. The National Congress has voted on and approved all the proposals for amendments to the economic order together with their regulatory laws. Of the so-called reforms of the state, the civil service and social security reforms are at the final voting stage. As for the tax reform, a complementary law has been passed, removing taxes from exports and basic inputs to encourage manufacturing. A clearance fund has also been set up for the states and towns and voting on the reform of the tax system has been put off until a more timely occasion.

Therefore, we need to face the challenge that economic growth and democracy demand, and accordingly, I submitted a bill for a constitutional amendment proposing a revision in the event that the constitutional reforms at present being considered in Congress fail to achieve their objectives. To overcome the obstacles placed in our path by certain constitutional specialists in my country, according to whom the Legislative Branch cannot call for a Revising Congress by means of an amendment, I will accept their approval for a referendum to be held at the same time as the 1998 general elections. I believe that a few visible measures will produce deep changes, allowing, first of all, for new treatment of private local and foreign capital, in the search for greater efficiency and new investments, through the establishment of clear-cut rules and

mechanisms for capital return, the remittance and reinvestment of profits; second, is the lifting of state monopoly in other strategic sectors and the opening up of new sectors to private capital under the control and coordination of the public authorities; third, is the simplification of the tax system and a reduction of the tax burden levied on productive activity, aiming at the tax collecting system's greater efficiency and at lower final cost of goods and services; fourth, is the elimination of restrictions on the exploitation of Brazil's mineral resources so that both domestic and external capital can operate at sufficient volumes to generate more wealth; fifth, is the elimination of provisions of a corporate nature, as well as those granting privileges to certain groups and categories of society, through democratization and universalization of social rights in harmony with Brazilian realities; sixth, is the reduction of rights under labor and pension legislation, making over-time more flexible and providing for other measures to adapt Brazilian legislation to new times within the process of economic globalization.

I am convinced that new challenges await us in the next century, such as unemployment, food production, drinking water, artificial technology, and the human resources for dealing with them. None however, will be as vital as the creation of jobs in our country and in the world. One of the biggest criticisms of economic globalization is that, instead of reducing unemployment, it is, on the contrary, increasing unemployment worldwide. I am aware of Brazil's difficulties in balancing such issues as poor educational levels, excessive workers' rights and the prodigal pension system, the lack of better professional qualifications and the high employment costs paid by investors. But I envision a wide range of

solutions to these problems, other than the constitutional reforms.

Brazil has a significant housing shortage and, to eliminate or reduce it, a major, perfectly viable construction program of around 600,000 houses a year, would create around 3 million jobs without calling on highly specialized labor. Another sector to be exploited is tourism, which comprises the so-called business tourism, tourism along the Brazilian sea coast and eco-tourism in the Amazon region and the Pantanal swamplands of the State of Mato Grosso. We have the physical conditions and abundant attractions to expand tourism, in the short-term, and welcome the arrival of 10 million visitors a year, thereby generating income and jobs. We can settle landless workers, and stimulate the national family agriculture program, settling a man on his own parcel of land for a price of US\$ 2,000 - while, elsewhere in the world this would cost an average of some US\$ 30,000. We also have the means of speeding up the bill for a simplified tax system for small companies with sales of up to US\$ 60,000, which would pay a general tax of just 5% at all levels. In the case low-income classes, the tax would rise to a maximum of 10% when sales reached R\$ 750 thousand. According to estimates made by the Brazilian government, this program alone would raise GDP to more than R\$ 1 trillion; Brazilian GDP would jump by more than R\$ 800 billion to more than a trillion reals, and this would reinforce the country's social security cash flow. The previously-mentioned reforms, coupled with the social and economic programs described here, would allow the Brazilian State to substantially reduce its internal public debt, the servicing of which places a considerable burden on the country's budget.

Relieved of its responsibility for the economy and freed from the burden of labor and pension rights, the State will return to its proper vocation, that is to say, to health, education, and public safety. It will be better able to provide the necessary infrastructure for private enterprise to set up and create jobs, income and taxes. Investing in fundamental and specific fields will once again be the role of the State. Thus, we can seek economic growth with social justice, development with appreciation of citizenship, the building of a country which will be a source of pride for Brazilians. This will result in a country that, at the beginning of the third millennium of the Christian era, can count itself among the world's more developed nations. Thus, Brazil will become a more equitable, socially balanced and socially cohesive nation.

To conclude my participation in this forum, I could not refrain from pointing out that no country in Latin America, and very few countries in the world, have the potential and infrastructure that Brazil has to receive foreign investment. Investors look for economic and political stability, and we have definitively consolidated these.

Likewise, I should say that in this globalized world, in which regional blocks such as the European Union, Nafta, the Andean Pact, Asean, Apec, etc., are formed to defend common interests, Mercosur, in spite of its short life, is a victorious experience, since it already exceeds US\$ 1 trillion of GDP, a very significant figure. We need, therefore, to consolidate it through the integration of other countries such as Venezuela, Colombia, Peru and Ecuador. As for the integration of Mercosur into the FTAA, I agree with the distinguished speaker who preceded me. Conversations could begin in the year 2010,

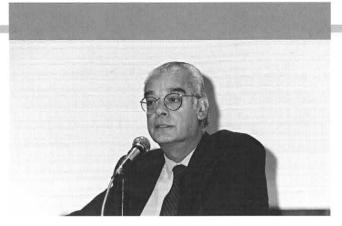
but integration must start with the sector in which we are more competitive because, otherwise, we shall simply be crushed like an ant under an elephant's foot.

As for the legislative area, we could set up a Mercosur Congress to legislate in the interests of the block and, at the same time, discuss, debate and bring about the process of developing integration, rather than have each member country's Congress set up its own commission. This is an idea which is currently being explored. As Alcide de Gásperi, the great post-war Italian politician used to say, politics should not have ideology, they should have ideas. Charles De Gaulle, the great French statesman, also emphasized that the goal of all politics is to transform ideas into reality.

Born in 1938, Mr. Oliveira is currently, a Member of the Brazilian Congress. He holds a Medical Degree (MD) from the Federal University of Pernambuco, Brazil (1963). He was a Director of St. Vincent Health Care Center & Maternity, Serra Talhada, Pernambuco and Surgeon-General at the Agamennon Magalhães Hospital, Recife - Pernambuco.

In 1975, Mr. Oliveira began his political career. He is currently serving his sixth mandate which will end in 1999. Throughout his career, he belonged to several political parties and is the founding member of the PFL (Party of the Liberal Front) and also Member of its National Executive Committee. Since 1995, Mr. Oliveira has been the PFL's leader in Congress. In his capacity

as Speaker of the House of Representatives (1993-1995), he exercised, for eleven times, the Presidency of the Republic of Brazil.



Jorio Dauster

Ambassador of Brazil to the European Community - Belgium

"Economic and Political Ties Among Trade Blocks"

As Minister Jobim said, the topic I am to speak on is very broad, as it centers on the economic and political relations between trading blocks. Now, I know we all remember that, a few years ago it used to be said, in apocalyptic terms, that the world would soon be divided into trading blocks at war and in conflict with one another. In fact this has not happened, and what we have today is a multiplication of acronyms, a veritable alphabet soup. It is very difficult for someone like me, a professional in these matters, to follow the multiplication of these trade associations and groupings. What has happened? It is really strange for someone to have shifted from such a pessimistic view to now see the opposite situation, the flourishing of these blocks.

In fact, those projections were made at the time when the Uruguay Round was under threat.

And the Uruguay Round was, and is, in fact, a very important ordering of the world that was done by the

powerful countries, above all by the United States and the European Union, accompanied by Japan. It was, in a way, imposed on the rest of the world and we who had limited bargaining power, had to accept it. Still, it is obvious that had this re-ordering of the world not taken place, there was the risk that each of these economic and trading blocks would have created or tried to create its own grouping, with highly competitive, perhaps even aggressive characteristics. I repeat that with the favorable solution found at the end of the Uruguay Round, we then had a more relaxed climate in which we could develop bilateral or multilateral free trade groupings.

Nonetheless, this still left a few questions in the air. There are great economists, great thinkers who believe there is a risk, since each of these arrangements creates a type of rigidity that will make it more difficult, perhaps even impossible, to progress toward greater

multilateral opening. Yesterday we listened to a great specialist, Fred Bergsten, who does not believe so. According to Bergsten, there is no intrinsic contradiction between the search for growing free trade at a worldwide level and regional or sub-regional initiatives. I think that today Bergsten's words represent the majority point of view. Based on a premise which is obvious, namely that the creation of regional or sub-regional groups would be positive, provided that it did not have a greater, or much greater, effect on diverting trade than it did on creating trade, it is obvious that any free trade agreement between two or twenty countries will have the effect of trade, otherwise there would be no point in their joining together. But, we have had cases, including the European Union itself in the past, which for many years operated almost as a fortress, producing much greater intra-zone trade than trade with other countries.

It is clear that our interests lie within this framework, and this is where I shall concentrate my remarks, namely our own Mercosur. It would be impossible to try to cover all the agreements, all the blocks, including several still in prospect, such as the case of Asia that is already beginning to want to work as a free trade area. But I shall concentrate on Mercosur because I believe that our interest in it is quite obvious. And, in the case of Mercosur, what we really have is a grouping that has all the characteristics of a customs union albeit an imperfect one, as yet - since there are various exceptions and special cases, but which are subject to a schedule. Therefore, it is not a pending matter and the four founding countries are obliged to resolve the issues that are not included in the agreement on the common external tariff. But in fact, what has happened – and it was a surprise for many of us that were involved from the beginning in the creation of Mercosur – has been a trade boom within the pertinent region, which, over a short five to six-year period has perhaps increased fourfold. More important is the fact that the four countries have not ceased to enjoy extraordinarily rapid growth in trade with countries outside the region. Unfortunately, exports to other countries outside Mercosur have proved to be growing only moderately, but imports continue to gallop ahead at the rate of 20 or 30% a year. Therefore, Mercosur, as my colleague Azambuja said yesterday, is perhaps the clearest example of open regionalism, of a grouping that, although it obviously has elements of trade deviation, has not disturbed the interests of its partners outside the region.

And in this context I must draw your attention to a notable occurrence, namely, that a lower-echelon employee of the World Bank leaked a study to the press- a study, incidentally, of very poor technical quality - which purported to show that Mercosur was a dangerous deviator of trade. Therefore, there is a question of doctrine and there are political interests that, sometimes, can arise or can make use of employees - naïve or otherwise - of international entities. We therefore, need to be prepared to react by having the real data at hand. But, I repeat that Mercosur is an extraordinary example of open regionalism and today it is facing two options. Mercosur has the option, as you all know, based on the 1994 Miami agreements, of joining the FTAA, a free trade area encompassing the entire hemisphere, stretching from Alaska to Patagonia. It also has the possibility of negotiating what would be an inter-regional association, the first of its kind, with the European Union. This was formalized in an agreement drawn up in Madrid in 1995. I have been working for years on this, and it is still only an indication of the wish for an association that would have a political overflow – which also does not yet exist – on the FTAA. But these are decisions that the European Union's fifteen member countries and Mercosur's four member countries have to make at some time in the future.

Still it is clear that the existence of healthy competition between the two suitors is very important for Mercosur, First, because it shows us what we are - and in the case of us Brazilians, we went through a long period of low self-esteem. We were unaware - and many of us remain unaware - of our own importance, our own value. And it is good to hear what we heard yesterday from foreigners, who remind us that we were the eighth biggest economy in the world, and that, today, with Mercosur, our gross domestic product runs to US\$ 1 trillion. Mercosur has a population of two hundred million consumers and another hundred million or more potential consumers. Unfortunately, social inequalities, especially in Brazil, but in our allied countries as well, have kept and still keep most of this population out of the mainstream of modern life. There is extraordinary potential and we have to recognize that we are an object of desire. Mercosur today is extraordinarily important to industrialized countries, which know that, at best, they will have growth of 2% or 3% a year; 4% would be exceptional. Industrialized economies have already reached the stage where they can only find really dynamic growth beyond their frontiers.

Now, it is based on this view that we are the fourth biggest market in the world – the United States and the European Union with GDP of US\$ 7.5 trillion come first, followed by Japan with US\$ 3.5, and then

by Mercosur. We have to be aware, therefore, that we cannot go into these negotiations naively. Strictly speaking, we may have committed, out of historical necessity, something that may one day be seen as a great mistake. I should say not though, because time does not wait, and we were caught at a bad time. We had to open up trade to a great extent, perhaps to the greatest extent in the world. I know of no other case where imports have grown as rapidly as in Mercosur's four member countries and a few other countries in Latin. America. I know of no other case of unilateral opening on such a scale, receiving nothing in exchange, without negotiating. We could not negotiate because at that point in time there was a national imperative on which I do not need to comment here; we all lived through the situation. Yet the fact that we took no advantage of this enormous negotiating potential, of an opening up worth billions, tens of billions of dollars a year to our main partners, is really dramatic. There was material for negotiation. Now, if that was the way it has been, we cannot make the same mistake again in any negotiation, whether it be with the United States, with São Paulo, with the FTAA or with the European Union. We must go into these negotiations now with great caution at the beginning, and later with great technical competence, which we do not have at present, and great political motivation, which happily we are beginning to have. Now the business community that was, let's be honest, practically absent from the initial negotiation for Mercosur, practically absent in Geneva in negotiating the Uruguay Round, yet was fundamental to the fate of the country, is now paying quite a lot of attention, and needs to do so still more. Unfortunately too, not just business people, but labor union leaders

already know that the well-being of workers is at stake in the negotiation, and it is for no other reason that Brazilian deputies, the Congress – and it is this that expresses the will of the elements of Brazilian civil society – began to pay a great deal of attention to these negotiations.

As an employee of the executive branch, as a diplomat and a negotiating professional I just ask that they would participate more. Because there is nothing worse than the loneliness of the negotiator, and this was our case for many years, where there was no rear guard, there was nobody to provide solid lobbying. When the negotiator has a good lobby - and does not position himself as a defender of minor interests - he presents a position which, even if it is not totally accepted by the government, may be used as an element during the negotiation. In fact, very often we felt isolated. This seems to happen with many Itamaraty employees and employees of the Brazilian government's economic ministries. I hope this is over for good.

The members of the business community that are here today, investors who will tie up their money in a factory in Brazil today, need to know whether this investment will last for the time they need to be able to earn a return on this investment, or whether they will be overwhelmed by a tariff reduction that will benefit imports coming from the United States or the European Union. So even foreign investors need to pay attention because it is their money that is at stake. I believe we need to act very clearly, with no inferiority complex. Because, as I always say, if there is one thing that we need to learn from the Americans it is the ability they have to identify where their interests lie and to go after them as hard as they can. And we sometimes have

a slightly shamefaced view of the world. Now, economic interests, the interests we are speaking of, are the interests of our future, of our workers, of everyone in our country. And therefore we should have no reservations about defending these interests. Now, to achieve this, we need to identify those interests and there we need to de-mystify many things.

Just yesterday, my friend Fred Bergsten said - and I agree with many of his opinions - for example, that we should not repeat the mistake of the import substitution policy. Now the error here lies in saving that the import substitution policy was a mistake. If it had not been for that import substitution policy and the important participation of the government, Brazil would still be just a big farm; that big farm that I knew well when I was a Third Secretary, a country that just exported coffee, sugar and cocoa. So we would be just a big Ivory Coast, and in a state of even greater subjection to the great powers. That program, therefore, was the only one open to us at the time, and the government had to take the initiative that it did for Brazil to become what it is today. Figures for primary product exports have jumped from US\$ 1.5 billion to US\$ 40 -US\$ 50 billion, half of which are manufactured products. This did not happen by chance. But it is obvious that the model outlived its usefulness - history does not stop - and, in fact, it outlived it more quickly and with greater distortions, not through our fault, but because of the debt crisis. It was the debt crisis that obliged us to transfer, and we ingenuously agreed to do so, 4% to 5% of our GDP to private banks during most of the 80's, producing extraordinary trade surpluses; and people tend to forget this. The reasoning went as follows, next year Brazil will need to have a trade surplus of a specific amount, and then came some crazy figure. And to-day how many countries can produce a surplus of that size? We were forced to do it. Let us not forget these things, because if we forget them we may make more mistakes in the future. In other words, we were forced to stimulate exports with subsidies, with currency devaluation which increased the debt in terms of the local currency, the cruzeiro or cruzado or whatever it was at that moment and we had to prevent imports at any price, otherwise we would not achieve that surplus. That was how the distortion came about.

We had severe restrictions, we had skyhigh import tariffs, and that was how the distortion came about. It obviously led to the obsolescence of our manufacturing plants and above all it sacrificed the poor long-suffering consumer who was obliged to pay much more than an American for consumer goods of inferior quality. But I repeat, this did not happen because we Brazilians belong to some category of people that have some kind of behavioral distortion. It was forced on us by external circumstances and, obviously, it was the multinationals that took the greatest advantage of this situation to sell their products. This was natural, since they had entered a market that was impossible to igand we had created the barriers that encouraged them to come inside and they were able to produce their products, as Mr. Peter Heap has told us here, without needing a dime from their parent companies.

Let us put an end to these illusions. We developed because we had a policy that, at the time, was valid and that had an element of protection. Now, all the great industrial powers: the United States, the European Union, Japan, developed as such through the

most absolute use of protectionism and subsidies, and in the case of Japan, for example and in others this still exists, as it does in the United States in a different way. That is, protectionism in regard to manufactured products, to agriculture is simply a disgrace. Protectionism holds absolute sway. And these are the countries that sell us the story that liberalization is way to progress, that it is a wonderful thing, a triumphal march. When? They solved their problems. During the three rounds of talks - Tokyo, Kennedy and Uruguay - they agreed that their tariffs, particularly among themselves, should be very low and for the rest of the world too. But they have the industrial power. We are emerging from an extraordinary decades-long crisis. A political crisis, a moral crisis, an economic and fiscal crisis, and we need time to be able to consolidate stabilization, to restore manufacturing facilities pace with which the Brazilian business community is reacting to the necessary stimuli of economic opening up that have already put in place is nothing short of a miracle. But the question is as follows: can this same business community survive another opening-up shock in the next four, five or six years, when they are still catching their breath from the first? Who is it that will export manufactured goods in the really dynamic areas that Brazil needs to get into in the modern world? We know that in practice, most exports will come from multinationals. And most of the multinationals coming to Brazil today are doing so with an eye on this market, comprised of two hundred million people. And this market will still have an extraordinary capacity for expansion if the Real Plan continues on its steady course as it undergoes the alterations that are still required.

The figures show that just 9% of the production of multinationals is exported. In other words, the

multinationals show very little propensity for exporting. And when the manufactured products are of typically Brazilian production, such as shoes, steel nobody was interested, fortunately, in the privatization of the steel industry they are exported by Brazilian groups. Then when we move up from 2.3 to 2.5% of the American or European market, we get hit with antidumping complaints. Products like steel and shoes, in other words products exported by typically Brazilian companies, are burdened by high tariffs. And our ability to influence the multinational companies' strategies with regard to their exports is minimal.

Brazil is not Mexico, which was able to set up a scheme whereby plants import 98% of what they export, but at least generate employment. This will never happen in Brazil. However, if at a second stage the multinational companies themselves tap this market of two hundred million people - and this should occur once objective conditions, the Brazil cost and other factors benefit their operations - will start exporting. But this will not occur now, not immediately. Capacity is being installed and in many cases is not sufficient to generate immediate exports.

Finally, what I mean is that Mercosur has to be very confident and must have clear, well-defined objectives when negotiating with the United States and the European Union. Both are negotiators that know where their interests lie. And we cannot feel insecure when we walk into their territory. Because if this happens, as Congressman Inocêncio said yesterday, it really will be the case of the elephant stepping on the ant. But I think we have the ability and the competence to negotiate, especially because of the new type of commitment, the mental engagement, that Brazilians can now muster, something which they could not do ten years

ago. We do not have to march to someone else's music. I mean, any rush would be very bad for Brazil. Fred Bergsten said he expects to see negotiations for the FTAA concluded in three to four years, and he said this as a projection, and I can only hope that he is a poor sooth-sayer. Any hurried negotiation would be harmful for Brazil.

Ambassador Jorio Dauster was born in Rio de Janeiro in 1937. He holds a B.A. degree in International Relations from the Brazilian Diplomatic School in Rio de Janeiro. From 1965 to 1967, he went to graduate school at McGill University, Montreal, where he studied Economics. In 1961, he joined the Brazilian Foreign Service as Third Secretary and became an Ambassador in 1987.

Since 1991, Jorio Dauster has been in Brussels as the Brazilian Ambassador to the European Community. In 1990, he was appointed to the post of Chief Negotiator of Brazil's External Debt (Ministry of Finance and Planning).

From 1973 until 1974, Ambassador Dauster was Coordinator of the Project for the Modernization of the Brazilian Patent System.

From 1987 to 1990, he was the President of the Brazilian Coffee Institute.



Gobind Nankani

Director, World Bank - USA

"Brazil: Towards Shared Growth - Challenges in Poverty Reduction and Improved Equity"

It gives me great pleasure, on behalf of the World Bank, to participate in this conference on investments in Brazil. I shall speak today on a challenge that every developed, emerging, or developing country in the world is faced with: the struggle against inequality. A challenge that appears never to permanently recede in any country, but one that requires especially great efforts for Brazil today. My topic for today is towards shared growth in Brazil, with the emphasis on the word "shared," and the challenges ahead.

Before I get on to the presentation, I would like to give an overview of my four main points. First, we will see that Brazil has extremely high income inequality and high poverty. Secondly, Brazil is one of the big five rapidly growing, emerging economies, the total of whose share in the world economy is expected to double by the year 2020. Third, growth and macroeconomic stability, which Brazil is on the way to achiev-

ing, are a unique opportunity to address poverty. However, although they are critically necessary, they are not sufficient. They need to be complemented by massive investments in human capital, targeting on social spending and selective asset redistribution.

The rest of my presentation will be divided into three parts. First, I will talk about the lessons of international experience; then I will look at Brazil in comparison with other countries and finally, I will turn to the agenda and challenges for Brazil. The lessons from international experience, what are they? The first thing to note is that the relationship between growth, poverty, and inequality is extremely complex and controversial. There are five main lessons that we derive from international experience. First of all, we do know that you need growth in order to have a lasting impact on poverty reduction. And examples of that are: China, Indonesia, Malaysia, and Thailand, which, for example,

between 1975 and 1995, reduced the number of poor by 50%. As a group, they had 716 million poor in 1975, and today they have 345 million. In Chile as well, between 1987 and 1994, poverty fell by something like 50%.

A second proposition is that we do not find any systematic effect of growth on inequality. That is to say, inequality is not correlated with per capita income. You have unequal societies that are both rich and poor. Third, we know inequality means, of course, more poverty, but it also means that every 1% growth on GDP has a lower impact on poverty reduction and there is also evidence that, the more unequal societies are, the less they tend to grow over time. That is our third proposition. Fourth, we have found that there is no intrinsic trade-off between poverty reduction and growth, Indeed, as we noted earlier, in most cases growth reduces poverty. And finally, we have learned that the key factors that influence income inequality are: low educational attainment, asset inequality, especially in the case of land, and policies such as trade protection.

A second major lesson of international experience is that inequality is extremely difficult to reduce. We have seen in East Asia, for example, exceptional reductions in poverty over the last twenty years, as a result of high and sustained economic growth. Even so, after a period of stability, inequality now appears to be on the rise in some economies in East Asia. China and Thailand are the two economies in which this evidence is most clear, but it may also be true in some of the others. We also see, for example, in Chile, that even though the number of poor was reduced from 60% to 40%, from 1987 to 1994, depending on the poverty line we use, inequality has not decreased. It remains high

by international standards. Consequently, we have complex relationships and inequality is extremely difficult to reduce, but progress has been made in many countries on poverty reduction.

The bank has been drawing from these lessons of international experience, and has suggested a strategy for its own assistance to countries. And this strategy is based on three pillars. First, that countries be assisted in undertaking labor-intensive, broad-based economic growth. Not any growth, but labor-intensive and broad-based. Secondly, there must be investment in human capital, especially in education and health. And third, there must be a well-targeted social safety net, as well as selective asset redistribution where appropriate. An emerging new finding is that participation of beneficiaries in project design and implementation can also dramatically improve results. Some of the more positive results in this area come indeed from Brazil, in water sanitation and rural poverty reduction projects.

Let me now turn to my second theme, the question of how Brazil compares internationally in terms of poverty and inequality. I think an overview tells us very quickly that Brazil shows a high incidence of poverty. About 28.7% of Brazilians live on less than a dollar a day. This is similar to other countries with much lower per capita income than Brazil. Secondly, Brazil's index of inequality is about 60%, which is indeed, one of the highest in the world. And third, we find that in Brazil the income of the top 20% of the population exceeds the income of the bottom 20% by a factor of 23.

Let us look at some graphs to illustrate these points more clearly. In the first graph, we have

on the horizontal axis per capita income and on the vertical axis indication of poverty. We see Brazil as above that downward sloping line, which in effect means for its per capita income, Brazil has a higher level of poverty than the average country. A good comparison would be, for example, Colombia, which is just below the line, just under Mexico and China, which is approximately on the line. So in terms of its per capita income, Brazil has a higher proportion of poor than you would expect in the average country,

In the next graph we look at another index, which is the measure of inequality. We see Brazil in the far right hand corner, which is an indication of how high its inequality is. We can compare Brazil, for example, to China, where China has the same level of poverty, the same proportion of poor people, but has a much lower level of inequality. And we can compare Brazil to Chile, which has both lower inequality and lower poverty.

If we now look at the next index, as well as at the ratio of the top quintiles share of income to the bottom quintile, basically the red bars are just a reflection of the inequality index, which we have already seen and Brazil, at about 60, is higher than Latin America at about 50. If we look at the blue bars, what we see is the ratio of the income of the top 20% to the bottom 20%. And we see in Brazil that it is about 23. Next over is Latin America, which has an average of about 15. And we see that East Asia, as well as the industrialized and high income developing countries have a ratio of about 8.

The next graph is particularly enlightening. What this graph does, it looks at the ratio of the second quintile to the first, the third to the sec-

ond, and so on. But really, the important bars to focus on are the ones on the far right. We are comparing six countries. Brazil is being compared to Japan, Argentina, the United States, Mexico, and Hungary. And what we find is that the ratio of the fifth quintile, the top 20%, to the next quintile, the fourth quintile, is much higher in Brazil than in any other of these countries. If you look at the far right-hand side, the red bar for Brazil is much higher than for the others, whereas in the rest of the quintiles, there is not that much of a difference. What this says in effect is that the inequality that we observe in Brazil is driven largely by the share of the top 20% being much higher than the share of the next top 20%. And when we look at the data more carefully, in fact it is the top 10% that account for this, and the difference between the top 10% and the rest is the fact that the top 10% have a college degree. So, what this tells us really behind these graphs is the fact of how important a role education has played in income inequality in Brazil.

If we look at the targeting on social spending, here we have a comparison between Brazil and Chile. If we look at the red bars, those represent Chile, we find that in Chile the bottom 20% of the population benefits with 35% of the social spending undertaken by the government. In contrast, in Brazil, the bottom 20% get 15% of the benefits of social spending. When go to the other extreme, the top 20% in Chile get less than 5% of the benefits of social spending and in Brazil get a little more than the bottom 20%, at about 18%.

If we compare social indicators in Brazil across other countries in Latin America, particularly Argentina, Chile, and Colombia, we find that the illiteracy rate is slightly higher in Brazil, that the secondary school enrollment rate is lower in Brazil, that life expectancy is lower in Brazil, and mortality is slightly lower in Brazil as well.

What we also need to remind ourselves of course is that all these numbers we have been looking at are averages for Brazil. There are tremendous regional and spatial differences as well. For example, on regional inequality, São Paulo's per capita income is about seven times that of Piauí. We have large inequalities within regions and cities. In Minas Gerais, for example, there is a tremendous range of incomes. There are large urban-rural inequalities as well, both in the "favelas" (slums) and among the landless. And overall, the worst poverty is to be found in the rural Northeast.

Now, what underlies this profile of poverty and social indicators in Brazil? We think there are four factors. First, historically very concentrated asset ownership, especially with respect to land. Second, quality of an access to basic education has been limited. Third, there are large inequalities, as we have seen, in the returns to years of schooling in Brazil. And finally, a combination of past government policies have hurt the poor. In particular, inflation, government spending, and social spending biased towards the top quintiles.

Going back to the international experience, we ask what does all this tell us for Brazil?, what are the two key lessons for Brazil? Well, it is clear that growth and sound macro policies are necessary, but they are not sufficient for sustained poverty reduction. It is also clear that growth will be less effective in reducing poverty in Brazil initially, because of the high inequality that exists there, because educational attainments

are low, and because Brazil's social spending is still untargeted. And it is also clear that growth will need to be complemented by human capital formation, better targeting of social spending, and selective asset redistribution.

Let me now turn to the brighter side of the story. What has been happening recently in Brazil? First, the impact of the Real Plan. By most accounts, the drop in poverty since the Real Plan was initiated, in mid 1994, has been dramatic. The population below the poverty line has fallen in metropolitan Brazil, from 43% in June 94, to 32% in June 97, in part because the inflation-related tax on the poor has been removed, and in part because trade liberalization has increased the relative price of services for which the poor are net suppliers, rather than consumers. We also find that in the last three years inequality has fallen as well. The coefficient fell from about 63.5 to 61.5 over the same period for metropolitan Brazil. And we find though, that along with macro policies, minimum wage increases have also contributed to this outcome. However, it is unclear whether further improvements can occur without higher growth or more aggressive re-distributive policies.

At the same time, we have found that medium term prospects for Brazil look extremely promising. In a recent study by the World Bank, five countries were identified as the big five: Brazil, China, India, Indonesia, and Russia, and we expect that between now and the year 2020 the share of world GDP of these five will increase from what it is now 8% to roughly 16%. So we see here that Brazil has tremendous prospects for medium term growth and these, I will emphasize, are based on rather conservative assump-

tions. They do, however, assure that the reform process that has been initiated in Brazil and these other four countries over the last several years will continue and that gradual trade liberalization on the world economy also continues.

The government has also begun to focus on the social agenda. It is important to remember that Brazil's poverty gap is only 0.8% of GNP, which means that with less than 1% of GDP transferred to the poor every year, there would be nobody in Brazil under the poverty line. So the poverty gap is not the problem. The problem is the policies for getting these transfers and sustaining them. The government of Brazil and the World Bank have been collaborating within the three-pillar strategy with a participating approach. And I would focus on two areas of such collaboration: education reform and market-assisted land reform.

What are the issues on education reform? First, as we have seen, the private rate of return to schooling is extremely high, especially at the post-secondary levels, but the poor need support in sustaining their schooling effort at the basic and secondary levels, where returns are lower. Secondly, we find that basic education is indeed at the center of the government's social policy, with the focus on two aspects. The first aspect is a reform program that aims at universal completion of primary education in the next ten years. This program is under implementation, and we have already begun to see in the last two years an upturn in enrollment rates. On quality, insuring minimum per student expenditures, increased school autonomy, achievement, testing, and teacher education, all of these also under the government's program in the last two years, have begun to show positive trends. The

World Bank has been supporting education targeted to the poorer states of the Northeast. These programs are now being extended to other parts of Brazil, particularly the states of the North and the Center West.

Second, what are the issues on land reform? The government provided access to land to sixty thousand families last year. It is a good start, but with a total demand of perhaps 2,5 million families, the agenda remains unfinished. We also find that access to land, while necessary, is not sufficient. Other assurances, such as credit and infrastructure, are also reguired for land to become a productive asset in the hands on the poor. The World Bank is supporting pilot projects in five states. These states are: Ceará, Pernambuco, Bahia, Minas Gerais, and Maranhão, to provide financing for the poor for investments, to make government-provided land more productive. If these pilots succeed, we are committed to expanding the program by multiples. So what does all of this add up to? Basically, macroeconomic stability creates the breathing space for the government to concentrate on the necessary political energy for the social agenda. And as we know from international experience, this will be a difficult effort. However, given Brazil's prospects as one of the big five, given the East Asian success with poverty reduction, given the small size of the poverty gap in Brazil, we believe that with the right policies it will be possible to achieve dramatic progress in the

medium term in Brazil.

Mr. Nankani is a Ghanaian citizen. He holds a Ph.D. in Economics from Harvard University (1976).

At present, he is the World Bank's Country Director for Brazil in the Latin America and Caribbean Region, Washington D.C. Mr. Nankani has been working for the World Bank since 1976 when he was assigned a number of economic and managerial positions. As an economist, he was involved in Development Economics and Policy, West Africa Country Operations Division, Brazil Department and between mid-1996 and mid-1997 he was the Country Department Director for Brazil and the Southern Cone at the World Bank's head offices.

When he was on leave from the Bank for two years, Mr. Nankani acted as Economic advisor to the Government of Ghana.



Nelson Jobim

Justice of the Federal Supreme Court - Brazil

"Economic Law - Consumer Protection Law -Standards Against Unfair Competition, Anti-Dumping Law"

I was asked to speak on a specific theme relating to the issues of economic law and basically to verify the appropriateness of the Brazilian legal system in the field of fair competition as regards industrial property and consumer rights. I will focus my talk specifically on the issue of Mercosur and try to present, as an initial assumption, some general comments with regard to economic concentration and mergers and with regard to matters relating to trusts and cartels.

It is important to point out that specifically in Brazil, legislation initially treated economic concentration as a crime. This was established in the 1938 and the 1945 legislation. Until practically 1990, Brazilian legislation viewed economic concentration by companies and the possibility of business growth by increasing market share basically as a crime. Economic con-

centration was seen as an evil in itself. There was an essentialist view of the subject and economic concentration was not examined from a finalistic standpoint.

From 1964 onwards, the government greatly encouraged economic and market cartels through the Interministerial Price Board/CIP. The role of this Board was to set maximum prices. And so the market was encouraged to establish cartels. The intention, or the political objective, of setting up the Commission was to establish price controls on the basis of strictly demagogic criteria. But the opposite effect resulted, preventing the spread of efficiencies within the market, precisely because of such measures. So from 1964 onwards, price and market cartels were formed. Price restrictions began to be lifted as of 1990. As prices became flexible, the basic view of economic concentra-

tion was considerably modified. We began to realize that a businessman's economic power had to be seen as a natural phenomenon within the market. It then became possible to examine economic power other than as an evil in itself, which had been the approach prior to 1990. It was possible to see that the objective of this economic power had been sidetracked. Brazilian legislation was modernized as of 1990. At present, economic concentration, free enterprise, fair competition, and consumer rights are covered by Law No. 8884/1994. At the time, I was a Congressman and took an active part in the discussion of these issues.

The purpose of Law No. 8884 is to protect free enterprise, free competition and consumer rights by suppressing economic abuse, which is viewed not as economic concentration but rather as a distortion of economic power as regards market control. The Brazilian legal system, which we can also call administrative economic law, defines acts of economic violation as acts that, according to the definition of the law, restrict, distort or harm free competition and free enterprise, through any kind of behavior, regardless of whether the economic agents are guilty or not. It was also established that acts such as increasing profits arbitrarily and exercising a dominant market position in an abusive manner were deemed to be acts of restriction and domination of the relevant market.

Restrictions to free competition or free enterprise, domination of the relevant market itself made it possible, within the system and under administrative authority, to create room to operate within the market. And then various important issues have come up in Brazil in recent years.

When I was the Minister of Justice, I came across two real cases related to these issues and to the definition of administrative authority. One case involved the Colaate/Kolynos merger. The other case was related to a company owned by the Gerdau group from the State of Rio Grande do Sul, involving the acquisition of a flat steel company. They basically showed that administrative authority was still in a period of transition in terms of how this kind of market is viewed. In other words, the existing concept was still a domestic market concept, in which competitiveness was viewed as the domestic market's concentrating power. But in other sectors, the view was not that of the domestic market, but rather of the international market as being the universe to be evaluated for the purpose of the idea of economic concentration and market domination.

What I would like to say about this situation, as regards the Mercosur, is that, if on the one hand Brazil has finalistic legislation, one of high risk, considering that it is impossible to define in strict, legal rules the concepts of relevant market, market domination, arbitrary increase in profit, abusive exercise of economic power – because all this represents value judgements on conduct in relation to the action of the market and, therefore, depends on who is defining what is an arbitrary increase in profit, since it is impossible to define it in legislation – we need to create, in Brazil, legislation, or better still, case law, a criterion for decisions that will provide a degree of security to foreign companies operating in the region, to ensure confidence in planning their future economic decisions.

The Administrative Council for Economic Protection /CADE is the antitrust enforcement agency that reviews violations of the economic order.

In the last two years, the objective of the work done by CADE has been to establish legal doctrine and case law so that local and foreign businessmen in Brazil would be able to understand the mechanisms of feasible and unfeasible economic actions. We are still operating in an area where there is a certain level of insecurity in defining this kind of behavior, because we still do not have the discipline, the doctrine or the case law that would transfer or transmit this degree of security.

We have attempted to move forward in this respect, and this is precisely why CADE does not allow prior inquiries. Inquiries are always carried out a posteriori. It has often been asked why Brazilian and foreign businessmen do not submit their proposals or contracts for advance examination, but instead submit them a posteriori. And the answer is very simple: because there is no clear definition as yet of the limits to which the process of defining permitted and non-permitted concentrations can be pushed.

The basic problem of the Mercosur is precisely the different legislation in Brazil and in Argentina. Uruguay and Paraguay have no legislation on economic concentration and protection from the abuse of economic power. Argentina's legislation, Law No. 22.262, dates back to 1980, and is typically penal in nature. In other words, it views economic concentration as an evil in itself. Argentina's antitrust enforcement agency is part of the Secretariat of State, Trade and International Economic Affairs of the Ministry of the Economy. The Argentine antitrust enforcement agency is strictly an administrative body, attached to the Ministry of the Economy. It may give opinions on acts of concentration, but the Minister of the Economy makes

the exclusively political decision. .

In Brazil, on the other hand, CADE is the entity which is beginning to represent what Brazil is beginning to produce - in other words, agencies set up on a non-partisan basis, with a certain degree of autonomy from the Executive Branch. CADE is a body made up of members who are appointed by the Executive Power for a two-year term. The Senate must approve their nomination. The Minister of Justice cannot interfere in CADE's decisions on inquiries, administrative violations or administrative proceedings. Minister of Justice cannot interfere in the content of the decision. CADE's decision is final. CADE's autonomy in this respect, coupled with the autonomy provided by the fact that CADE's members have two-year terms of office and must be approved by the Senate, makes the decision-making process a non-partisan one. So CADE is our first example. CADE was set up years ago, but its autonomy began to be effectively demonstrated after enactment of the relevant legislation in 1994. Similar agencies, with some kind of autonomy from the Executive Branch, are beginning to appear in Brazil.

In reality, this concept of non-partisan agencies results from the need to keep the Executive Branch from participating in economic production. This concept is beginning to emerge as a fundamental function of the State within this new model. Its regulating power necessarily demands nonpartisan agencies, that is, agencies that are not controlled by political-partisan negotiations. These agencies cannot be part of such partisan processes. And this can only be ensured by the agencies' degree of autonomy, basically established by the terms in office of its members and by the absence of appeal proceedings in relation to the

government's political entities.

I would like to mention that this model is currently being criticized. The Supreme Court is now examining a direct action of unconstitutionality brought by political parties in relation to the telecommunications agency. These political parties claim that the telecommunications agency cannot have administrative or decision-making autonomy, and should submit its decisions to government entities, that is, the Ministers of State or the President of the Republic himself. This action shows the shock related to the appearance of this new model in Brazil. A Brazil whose government no longer interferes in the market or defines market rules, but rather a Brazil that permits a free market, establishes a regulatory agency for market actions and sets up feasibility and inspection guidelines for such actions.

Curiously, this is a strange discussion because it has been the Brazilian leftists that have given rise to it. The leftwing political parties are precisely the ones to say that these agencies must be totally dependent on the Executive Branch, that these agencies cannot have any decision-making autonomy, as if Brazil did not have agencies with a certain degree of autonomy, as is the case of CADE.

It must be kept in mind that these concepts of competition and violation of the economic order in Brazil are not treated as crimes, but are punished by fines, penalties relating to adjustments and through administrative proceedings that lead to forms of control. These forms of controls may be in respect of, specific restrictions on competition, and require companies going through a merger to make specific performance commitments and take progressive action to make their market operations feasible.

What we have in the Mercosur is a diversity of legislation, which, at some point, will become uniform. To this end, the Government has been negotiating with the Mercosur for the last two years. A memorandum of understanding was signed in December 1996. I was still at the Ministry of Justice and our talks with Argentine, Paraguayan and Uruguayan government authorities led to the preparation of an initial memorandum establishing a two-year period to standardize the Mercosur member countries' legislation on the subject.

There are still some expectations as to this matter, in view of some reservations voiced by Paraguay and Uruguay in relation to the drafting of this kind of legislation. Argentina, on the other hand, has advanced considerably. The disagreements between Brazil and Argentina are related to patents and trademarks. There is a large gap in Brazilian legislation with regard to industrial property, both with regard to international lack of patent protection and products in the pipeline. The definition of the pipeline in the Argentine legal system is entirely different from that in the Brazilian legal system. Issues such as insider trading, inside secrets, parallel imports are approached in entirely different ways. So there are huge differences between Argentine and Brazilian legislation. This has led to very tough negotiations by the Ministry of Justice and the Itamarati in order to achieve, at some point, a certain degree of harmony with regard to industrial property law.

These differences are also clearly felt with regard to Brazilian legislation on the protection of consumer rights. Consumer rights legislation in Brazil has made enormous advances in terms of introducing important criteria. This is another still unsolved conflict,

although it is being managed, among the Mercosur member countries. Brazil and Argentina are heading towards an understanding in this respect. In November 1996, the Brazilian Government tried to sign a memorandum of understanding and a memorandum on consumer rights protection. Brazil and Argentina agreed on the content of consumer rights protection, but Uruguay broke negotiations off. Uruguay refused to negotiate consumer rights protection. There was a criterion based on internal expectations, and there were problems of collaboration by the elements of the legal system involved in consumer rights issues.

I do not want to go into this issue too deeply, as it is a very specific one. So I will just make a general comment - which is precisely related to growth, as pointed out by Ambassador Jório Dauster - on the kind of policy Brazil should follow when negotiating on an international level.

With regard to understandings with the FTAA, the United States and Europe, and the clear evidence of concern with Brazil's major problems, as presented by Dr. Nankani, it is important to keep in mind that Brazil, in a global sense, must re-examine its conflicting internal relationships. In other words, the standard view is one where the Executive Branch conflicts with the Legislative Branch which in turn conflicts with the Judicial Branch, which then conflicts with society itself in a global sense, whether it is the business community or workers. What we must clearly define is a common agenda that can unite the Executive, Legislative and Judicial Branches, workers and businessmen in respect of a minimum common agenda for concerted action with regard to international adjustments.

It is no longer possible - and I have read

Ambassador Jório Dauster's presentation - for issues related to international talks and negotiations to be restricted by or exclusively reduced to the bureaucracy of the Itamarati.

It is absolutely necessary that those who take part in this process, that is, workers and businessmen, participate globally. This is the right solution for issues related to the opening up of the economy, including clear revisions of actions carried out against workers in Brazil. The labor union model in Brazil is one of our biggest problems.

Our labor union model deals with issues based on professional categories. This model does not have the feasibility that comes from labor union plurality, but instead demands a single labor union per professional category associated with three big paradigms – single labor unions, labor relations judges, the labor court's normative power, mandatory taxes and labor union dues - all these lead to unfeasibility in a modern model in which a company's costs derive from collective labor agreements defined by sector rather than by professional categories, and perhaps by companies. It must be taken into account that the negotiation of the costs of competition by these companies depends precisely on their ability to compete and on their costs.

Besides these comments, I would like to add an important remark. There is growing perception, of the economic responsibilities of the Judicial Branch. It is no longer possible to think about economic irresponsibility in the judicial system. We are fully aware of this and there is an investigation department in both the World Bank and IDB that clearly demonstrates the link between sustained economic growth and the credibility of judicial systems in resolving internal conflicts.

What we must certainly come up with on the basis of these criteria, is a judicial system that can respond to what is known as reliability. And the reliability of the Judicial Branch responds to three major items. The first is its accessibility, accessibility to all, with nononerous accessibility criteria. The second item is the predictability of the system's decisions. It is absolutely necessary to reduce arbitrariness to nearly zero; trariness in the sense of making contradictory decisions feasible. The third item is to make decisions within an economically and socially acceptable time span. Once these three items are dealt with, then we may be able to have a reliable judicial system that will ensure that its rulings reflect future expectations of economically and socially feasible decisions.

What we must make very clear with regard to all this, is that we must define what the judicial system is for. The judicial system is a control system for the production of results, for the bench, for attorneys and for the Public Prosecution Service, or is it a system to serve the population and the citizens? If the judicial system is effectively a system created for the benefit and for the results of its members, then in this case it becomes absolutely legitimate for me to hand down a profound, highly questionable decision through the Supreme Court which will ultimately be part of my future biography. I am there to decide on conflicts of interest and hand down decisions that are appropriate to and consistent with the conflicts of interest to be resolved, and not to transform them into a theme of minute future investigation with regard to my academic ability to support these theses or positions.

Either the Judicial Branch is a place for me to establish my biography or it is a place through which I will serve the nation in the sense of producing results that

may contribute to a general view of the nation rather than a global vision of the political dispute between the powers of the state. It is very obvious that, on the part of the bench, we must have a very clear view of this issue. The Judicial Branch is not a place to write individual history, but rather it is a place for providing services to the nation within a socially and economically tolerable time span. And neither the Judicial Branch or the Brazilian Judicial System is the place to produce and reproduce specific situations.

In all the discussions we have had in Brazil - and it is important to say this to the business community - on the reform of the judicial system, we understood, perhaps somewhat naïvely but very seriously—there was no bad faith -, that reforming the Judicial Branch meant placing judges, lawyers and prosecutors around a large table and making an agreement with them in regard to the Brazilian judicial system. As the judicial system was of no interest to the business community, to workers or to political parties, the discussion on the issue was restricted to the interested parties. What happened during this period is that the major discussions among the interested parties were on how much power would be allotted to each interested party within the judicial system.

The major discussions were on whether the Public Prosecution Service should be on a par, or not, with the bench and revolved around the possibility of lawyers participating in the activities of the court to a greater extent. The discussions made clear mention of results, but not in the sense of speeding them up. Appeal mechanisms were created, not to resolve cases but to meet something that has become very important in the last twenty years, which is time as regards lawyers' remuneration. In other words, important divisions

of labor were created.

I do not want to go into this matter more deeply. But I would like to say that the business community must also start giving some thought to this issue, under penalty of having unbalanced development and institutional procedures which will not ensure what Dr. Nankani mentioned as being absolutely vital. said, it is absolutely necessary for us to have political and legal institutions that can keep up with the development process and ensure, through specific positive criteria, the feasibility of this development as regards international relations. If we do not have this, then surely all the attempts and opportunities will come up against institutions that will not respond to the needs emerging in a globalized world, globalized in the sense that internal decisions must surely be taken in the light of International perspectives. In other words, limits to sovereignty result precisely from this process of economic globalization.

I believe that, today, the Brazilian judicial system is certainly thinking in a like manner. Openminded sectors of the judicial branch are moving away from approaching the Brazilian judicial system as a system in which to assert personalities and are moving towards a system which affirms the need to render services to the country and the nation. We are increasingly going through this necessary process of integration. We must start to have members of the Judicial Branch who can begin to be responsive to this kind of situation. One could see in the past specific kinds of judges or ministers that were afraid or were incapable of relating to anything.

In the end, we are all public servants, and as such, we must participate fully in national concerns and

not isolate ourselves in an ivory tower, thinking that we are important historical characters. In reality, we can either be encouraging and participative, or become retrograde participants in the midst of a historic process of modernization.

Nelson Azevedo Jobim, 51, has been a Justice of the Supreme Court of Brazil since April 1997. Prior to this date, he held the post of Minister of Justice of the Federal Government. He was elected Federal Representative to the House of Representatives for two mandates: from 1987 to 1991 and from 1991 to 1995.

Jobim has a degree in Law and Social Sciences from the Federal University of Rio Grande do Sul and holds an MA in Contemporary Philosophy from the Federal University of Santa Maria, the city in the state of Rio Grande do Sul where he was born.

During his teaching career, Mr. Jobim has taught at many institutions such as at the Justice Department's Escola Superior do Ministério Público do Rio Grande do Sul, the Federal University of Santa Maria and the University of Brasilia where he teaches Constitutional Law. He has headed many Brazilian delegations to foreign countries and as Congressman was leader of the PMDB - Brazilian Democratic Movement Party in the House of Representatives. He was also the head reviewer of the Constitutional Revision (1993/1994).



Mario L. Baeza

President, TCW - Trust Company of the West/Latin America Partners, L.L.C. - USA

"The Importance of Private Foreign Investments for the Growth of Latin America"

It is a pleasure to be here to talk about the subject of private investment in Latin America in general and in Brazil in particular. And I would like to do that from the point of view of somebody that does make investments in Brazil today. I am chairman and CEO of TCW Latin America Partners, which is a private equity fund, a 300-million dollar fund designed to make investments throughout the region in Latin America, but focused principally on Brazil, Argentina, and Mexico. We look for non-public companies, private companies that need capital to be able to take advantage of the opportunities we have heard about today in this conference.

What I would like to talk about today is really the other side of the macro story that we have been hearing about and that has been described so well, talking about the infrastructure changes in Latin America, particularly in Brazil, talking about the trade

and other agreements that have been made. I would like to talk about this from the perspective of private companies themselves, that have had to survive in this environment, in an attempt to thrive in what is really the brave new world of global competition. I would like to talk about it from the perspective of the trenches, from someone who has been trying to put deals together in this region, in Brazil in particular, trying to put meat on the bones of the skeleton, in the skeletal framework that begins with the lowering of trade barriers and that has gone, as you know, much farther beyond that. I am going to focus in particular on the challenges facing most companies in Brazil today and the key obstacles that they face in trying to take advantage of the new macroeconomic and political reality that is Brazil. I think this perspective is important because at the end of the day Brazil does not really compete, Mercosur does not really compete. It is private companies that compete one against the other and if Brazil has a number of very successful private companies competing globally, than it is a successful country. But I would like to focus now at that level and on the risk that we see in trying to make investments in Brazil today.

Let me start by talking a little bit about where private companies in Brazil have come from and how they are approaching this new environment to-First of all, Brazilian companies in particular, but this really is generalized to all Latin America, they are coming out of twenty-five years of protectionism. Trade constraints, both tariff and non-tariff, were real constraints on foreign investments, through exchange controls, inability to repatriate capital, etc. They have - an effect of this import substitution model - not had to face a real competitive environment. Brazil also had a situation where the savings and investments process was directed by the government. What does that mean? Well, you had the development bank and you had other bureaucratic agencies telling Brazilians where to invest their money - what industries, what sectors they thought were going to be important to the country. And therefore resources were channeled through the BNDES or otherwise. Resources were channeled to various sectors so that they could be built up from scratch with the incentives, tax incentives, long-term low interest loans, etc. But the allocation of resources in these countries was done largely by government mandate.

The next thing these countries faced through a good portion of this time was price controls. Now as we come down to invest in Brazil and Latin America, we forget that price controls have been a very important part of the fabric. Most of these companies have had to survive in environments where, you know, what they were good at was running to Brasilia to

get price increases approved because their costs went up, not because they were particularly efficient, but simply because they were entitled to have a margin based on price controls. So what happened to these companies in the nineties? They find themselves with inadequate business portfolios, many of them are over-diversified, they are into all kinds of businesses, none of which makes sense. All under one roof, but they were as a result following various government policies over the years. You see, there was not a big emphasis on quality service, because again, in a non-competitive, price-controlled environment that was not a big factor. Low levels of global integration in sourcing, in distribution, again there was not very much background in the Brazilian environment for that. In fact, it was guite the opposite. Most companies, given the environment that existed, went into vertical integration, because you had price controls and because they wanted to assure their supply of the intermediate goods they needed to make their products. So you have all kinds of business formations that in a new competitive environment need to be re-looked or looked at again. Poor product innovation is a typical thing you see among Brazilian companies, particularly in the middle market segment, but at the end of the day, these companies have a market. And that is what obviously is most attractive and the basis for them to proceed. So as you start the nineties, what happens to these companies?

We have heard a lot about lowering the trade barrier and Mercosur and what that has done is it produced greater competition for their markets and intensified competition not just for multinationals from the United States and Europe, but from Argentina, from Chile and others even within Brazil, themselves coming into other segments of the market as competition has opened up.

We have heard about the Real Plan and the effect of that, the increasing expansion in demand, which has been phenomenal, for consumer products, consumer durables and the like. But in order to meet this expanding demand, most of these countries found themselves without the resources to meet that demand. So all of a sudden, backlog was swirling to year, year and a half of backlog, and companies were unable to get the products out to meet the market demand that changed so quickly. Another thing, many of these companies were leveraged, and again, in periods of high inflation, leverage plays different kinds of wars. But when you start to control higher inflation , all of a sudden leverage is a bad thing and then when you have a liquidity crisis, as has happened in Brazil, you know, you find yourself paying anywhere from 60 to 100% interest rates on your debt. And all of a sudden you are in desperate need, in order to be competitive, for a corporate and a balance sheet restructuring. And that is the fabric of much of the environment in Latin America, but particularly in Brazil. I think the number one obstacle I would say, that is facing Brazilian companies, indeed all Latin American companies, in their ability to meet these challenges, to meet that increasing demand, to be able to meet the competitive challenges, to be able to restructure their balance sheets and the like, to be competitive is the absolute scarcity of capital. That scarcity results really from a couple of sources.

First of all, when you look at the public markets, look at the Bovespa, or the Merval in Argentina, you look at the stock exchanges. You will see that the ratio of the market cap of all the listed companies, through GDP, in Brazil is about 35%. That compares to 100% plus in the United States. It compares to 140% in Chile, although it is better than the overall Latin America

average, which is down in the twenties. What the statistics suggest is that two thirds of the Brazilian economy is informal, is traded outside the stock exchange, and therefore does not have access to the traditional sources of international financing that Brazil and other countries in Latin America need in order to fill the growth that we have been talking about. Even if you look at the companies that are listed in the Brazilian stock exchanges for example, there are a couple of things to see. Local and foreign investments have basically been targeted at the top ten largest names in Brazil. It is mostly foreign money that goes into the "brases". You know, Eletrobrás, Telebrás, Petrobrás, etc. In fact, if you look at the first six months of this year, 81% of all securities trading in Brazil was basically around these top ten names. And in various points in time, 55% of all the trading was Telebras by itself.

So where is the money really going, when you say it is going into Brazil? It is going into very few, very big companies, and that is the reality. One of my partners in this private equity fund, Trust Company of the West, is an asset manager. It manages US\$ 55 billion in assets and has about US\$ 2 billion in the public markets in Latin America. I asked the folks that do the public market strategy where their investments are in Brazil. The average market cap of a company invested in by foreigners today in Brazil is US\$ 16 billion. That gives you the size of the companies that the foreign investments are coming into. It is coming into the big utilities. I think if you take away the top ten companies, if you take away the privatizations that have been done and the huge amount of capital that has come through privatizations, then you see that relatively little direct and indirect investment is going into most of this economy. And yet it is that investment that is really needed, whether local or international, to fuel the kind of growth that we have been talking about.

I think the point is that Brazil lacks, again, as most of Latin America lacks, a real true domestic institutional market. And what do I mean by domestic institutional? Yes, there are development banks, ves there are various programs here or there, but in contrast to Europe and some of these other countries where they have a strong institutional market, who are the main lenders of the corporations? Who is filling the insurance compa-It is the private pension funds, the public pension funds, it is venture capital funds, private equity funds, all kinds of funds designed to get at the low investments, great companies, mid-cap companies, small companies, and large companies. There is long-term bank financing for most of the time in Latin America and Brazil in particu-Long-term financing, long-term debt financing, was, you know, three months, nine months, and then it revolves, if you are lucky. Without having institutional investors in your market, in any meaningful sense, it is very difficult to get the kind of equity and the kind of investment you need to fill the growth we have been hearing about.

So I think the challenge for non-public companies, the companies other than the big ten or fifteen, say the big challenge for them as we hear about this great story and promise that is Brazil, is to find a suitable medium and long-term capital source. So that they can restructure, so that they can take advantage of the pent-up demand, of these new order waves and infrastructure developments that are going to lead to greater trade and greater openness with Mercosur and other places. Again, capital is needed to fuel this. I think that too is Brazil's challenge, creating this institutional market. I know there have been talks about privatizing the pension funds, and the pension funds have actu-

ally become more powerful in recent times. I think there is about 87 billion dollars now in pension fund money mostly belonging to the big state-owned companies.

But that is an important development, and the mutual fund industry is starting to develop, that is an important development, but it has quite a way to go in our view. I think, you know, if you look back at Asia and compare Asia to Latin America, you say why is the growth rate in Asia so high and the growth rate in Latin America by comparison not very high? And it really does boll down to high savings rate in Asia, but not just the high savings rate. What that means is more domestic capitals available, and when we go to Latin America, there is not any capital. There are the opportunities, and they are being created more and more every day, but without capital to fuel it, it is always constrained. And that is the big difference. If you go to Asia, there is no capital scarcity in Asia, there is huge repatriation of capital coming in from the Chinese, from Taiwanese, etc., and there is the ability to attract capital. The game in Asia today is picking the right companies and being able to get into attractive deals. game in Latin America is still very much a capital scarcity game.

A second big issue I think, and it was alluded to yesterday - it is a very interesting issue, and that is the quality of management and skills. From what we have been able to see with the companies that we have talked to, Brazil has a vast reservoir of talented and agile management. It is not a management issue here, there are so many experience issues, but if you think about it, just the mere fact that these companies have survived is an unbelievable thing. To deal with 4,000% inflation rate and five stabilization plans in two or three different cur-

rencies and huge shifts in governmental policy, really from night to day. It is amazing these companies have been able to survive at all. And what you find are managers and managements that are very, very talented, very quick on their feet, but you see a difference today. If you go back four or five years, the basic bet in the financial community and the business community was: whatever the government said it was never going to do, the market believed they were going to do it. They would always bet the opposite of the government. It was just a rule. Today it is different, today there is confidence in the agvernment. That is making an enormous difference, and still you have a very, very agile group of managers that are used to taking into account a lot of other factors beyond making money through selling products. They have had to make more money in most cases through the investments of their cash, in hyper-inflationary times. They have had to be very careful about how they grew their businesses and very suspicious of governmental policy. ment, as we see it, is also very sophisticated. I mean, Brazil is second to none in terms of the financial tools that this financial community has developed.

I led, a couple of years ago, the privatization of Embraer. We led a group of U.S. investors and we put a consortium together with Banco Bozzano- Simonsen and Previa and Sistel, two of the larger pension funds in Brazil. Embraer is the largest aircraft manufacturer of South America. It has 40% of the U.S. market in commuter aircraft, and it was coming out at the time with this new 50-C commercial jet which was going to revolutionize, and really has revolutionized, the aircraft industry. I just remember going to Bozzano-Simonsen's amphitheater, where we were going to watch the auction, because the auction was to

be held on the São Paulo Exchange, and they have got this huge screen sitting there. They have got all of the elements that you might see if you were on the exchange itself. They have a room full of people and traders, all there with computers attached to their chairs, ready to make trades back and forth. We have got six or seven horses in the race, It was unbelievable - the Star Wars in the middle of Brazil. So for us, I think it is fair to say that the Brazillan financial sector in many ways is even more advanced than it is in the United States, certainly from the technological point of view, and largely out of necessity, because when you have got 4000% inflation, you know, you measure the value of time loss with money in minutes, and that is how that system grew up. So we do not think there is a big issue with the talent in management or the depth in management.

But there are two areas where the management tends to be weak across the board. through Latin America and including Brazil. One is marketing and merchandise, and that is really the legacy of price controls and controlled economies. ber, for example, talking about merchandising and marketing. I remember I was representing the Costa La Gueda family in Mexico, which is one of the largest of the seventeen big families in Mexico, it is probably the number one big family in Mexico. They owned, at the time the largest Coca-Cola bottler outside of the United States. They owned 50% of the beer market, they owned a water-bottling business, which was the number one business in packaging. And they were going to sell 50% in joint venture interest in each of those companies in order to raise about two billion dollars so that they could buy the largest retail bank in Mexico up for privatization. And I remember sitting down with the president of the

beer company and he said: "No matter what happens. even if we do not buy the bank, we have to go ahead with these joint ventures." And I said, why, you have 50% of the beer market in Mexico, that is a huge market, you have had 50% forever, why would you need to team up with a partner? And he said: "Well look, let me give you an example. For the last ten years we've been introducing blonde beers, I mean Modelo is a dark beer, Corona Beer is a blonde beer, and that was the other 50% of the market. We have been trying to introduce a blonde beer to compete with Corona, and no matter what we do, and how we do it, at the end of the day, what we do is cannibalize our own sales. introduce these new products and we sell less of our own products, we make no dent on the other side, we can not figure it out. And now there is Nafta. And auess Here comes Budweiser and Miller and everybody else is going to be competing for the market here by the quarter of a point. And they are going to come I would with flip-top cans, and draft cans, and draft bottles, and a 50-million dollar ad campaign and we will not know how to begin."

The second thing I see with managements across the board is sort of a failure to think big. And all the things we have been hearing in the last day and a half in this conference suggests that you have got to think big. Brazil is big, Mercosur is huge. The opportunity in Latin America is big, and the opportunities for these companies therefore are big opportunities, but these companies are thinking on a relatively small scale. Most of them are family-owned businesses today and fragmented industries. They are thinking more in terms of: If I could just build a plant and get rid of this backlog problem, if I just refinance the debt and get this interest ex-

pense lower. I mean, the way this world is working, competition is based on global economies of scale; and economies of scale are dominating today. And then economy as scope, maybe you do not have to be huge in scale, but if you have a niche, sure, but then you have got to dominate in that niche to protect that niche.

And so what we see are very few companies asking themselves: how do I really position myself for this new Brazil and for the next five years, not simply how do I solve this immediate crisis? And when it comes to writing strategic plans, writing business plans, and figuring out how to grow these businesses in accordance with this new opportunity, that is where we see a lack of experience. Our view obviously is that business plans and how you position yourself in thinking strategically is going to be much more the wave of the future, and therefore much more a requirement for success.

So I think the second major challenge I would point out for the companies and their managements is to think big and think strategically, to think in a way where you do not start from the premise that capital is unavailable—which is how they are mostly thinking—and therefore constrains your opportunities, and therefore constrains the possibilities for the enterprise. Well, it is in the context of the capital being scarce and in the context also of creating this bridge of know-how that you need to market in today's world and to be competitive, that private equity—really has come about for Latin America.

Private equity is a new form of capital in Latin America, it is only a few years old, these are funds that have been collected in most cases largely from the United States' big institutional investors, to go

in and make long or medium term equity investments in private companies in Latin America, in this case in Brazil. It is trying to be a bridge between the lack of an institutional market today and maybe the lack of some know-how skills today, and the institutional market we hope is developing and will develop in the next three to five years. I am the chairman and CEO of TCW Latin America Partners, a 300 million dollar fund. We take controlling and joint venture stakes with families and companies, we bring them capital, and an operating management board. We have a group of recently retired CEOs who used to run Latin American operations, they are in their 50's and they are very excited, from Coca-Cola, Sears, Dow Chemical, Johnson and Johnson, General Electric, etc., who really come and help with this technology know-how transfer. So we bring both the technology know-how and capital. We also have resident partners on the ground here in Brazil, Argentina and Mexico. What are we looking for? We are looking for companies that can be a platform for consolidation. We think that is a huge, important thing. Fraamented markets, their days are numbered. We look for companies that can be globally competitive. Now you can not just look at a company in Brazil and say: this is the best company of this kind in Brazil, because the competition is China, the competition is the United States, the competition is Chile. So you have got to all of a sudden take a global look: who is who, who is where, who is going to come and is four dollars behind them and take over the market and then think about how this company is positioned, and can you, with capital and knowhow, be able to defend and grow a particular market.

I guess in short we are looking for companies that can take advantage of this macro-economic and politically stable situation we see in Brazil, that can

use the infrastructure that is being created for the companies here. What do we worry about the most? Well, for one thing we worry about our bridge-building not being a pier. We really want to have a bridge. We are starting here and want to get out in three to five years. and we do not want to have a long and winding road and no way out of these investments. And in order to get out of these investments after you have grown the company, and after you have seen the company go quintuple its size in sales or revenues in income. have to have a way to sell this investment. Today, can you do an IPO in a Brazilian stock exchange? People say yes, but there are no companies listed in trade in a Brazilian stock exchange in any meaningful way, that are not the very biggest of companies. So, you worry about it for middle-market companies.

I will say if you go back three or four years, from the point of view of most U.S. multinationals that we are not already in Brazil, Brazil did not exist, I will say that. Four or five years ago most U.S. companies were just starting to think: we need a Mexico strategy, Nafta is coming, we need to get to Mexico. Then the peso crisis hit and most of them pulled back quickly or tried to re-access where they were. But in the aftermath of that, they became much more interested in Brazil, which is very interesting, because Brazil and the market that we have here just cannot be ignored. So I think there will be a lot of direct foreign investors if they can find companies that are properly run, that have good financial statements, etc., and that is what of course we try to hope to do. Back to the IPO market, the pension funds, we know, are playing an important role.

And if you look at what happened to Chile in 1987, we have had a lot of experience in Chile, when

it really opened up, the way people fled from investments in Chile, you negotiated basically with the private pension funds and then you sold over the exchanges to the pension funds. And we see that kind of thing happening here and as the pension funds in Brazil get stronger and stronger the problem is the pension funds tend to sit on the investments when they make it. Instead of trading them actively, they buy a company, or big part of a company and then they sit and hold. So you do not have a secondary market developing, which of course frustrates future ability to get capital, it is a big problem. In the U.S., you get a security, nobody holds these things. They buy them, they trade them, they sell them, they go up, they go down. In Brazil they buy them, they put them in their little "pockets", and you know, what happened to the company? And what is the company worth? And if you want to go back to the market and raise more money, there is no established market.

The other thing we worry about are the macro policies in Brazil. We do worry about the overvalue of the Real, particularly because it is more or less paired to the dollar, which is a very strong dollar. We worry about the trade deficit, although we are not as worried as some. I guess the trade deficit is expected to be about 5% of GDP this year. In Mexico, what triggered the peso crisis, aside from Mexicans pulling out their money, was that 9% of GDP was of trade deficit, and that is a serious number. So Brazil has 5%, Mexico had 9%, the big question is what is going to happen after they run out of these 75 billion dollars worth of assets to privatize, and then what kind of long-term plan are they going to have in place to deal with trade deficit issues?

And I guess the last issue I would say, that we worry about are the macroeconomic policies of the

United States, particularly, you know, raising interest rates in the United States. What we saw again in Mexico three months before what partly triggered the Mexican peso crisis, was simply raising U.S. rates. Raising U.S. rates sucks capital, the first place it goes is out of the emerging markets normally, and back into the big domestic markets. Right now we are exporting capital at very low long-term rates in the United States, so everybody is going overseas to try to get yield. As soon as the yield comes back up in the US, that money comes back faster than you can believe, because as the U.S. gets attractive, the emerging markets all get less attractive from the risk word point of view, and that means huge flows of capital in all kinds of different directions, and the impact that can have night to day is extraordinary.

The last issue we will worry about is the rise of U.S. protectionism. I mean, we have been talking about Brazil, and we are dealing with protectionism. Protectionism is still a big issue in the United States. We are obviously having real political issues trying to get Chile on a fast track to join Nafta. There is a big trade-off between helping countries like Brazil and bringing investment and technology to Brazil or to China, and wherever, and exporting United States jobs. That is a very big issue, no one is coming to grips with the U.S, but it is going to threaten, I think, in the long-term how this whole thing plays out. And we do not know how it is going to play out. I will just cite one last example. China, as a condition to opening up its market to Boeing, required that Boeing transfer all its latest technology to China, so that China could be in the position in five years or ten years to be able to build its own aircraft and improve on the models. And of course, the U.S. workers went on strike. What the hell is this, you are going to take our technology, send it to China, where the labor rates are less than a dollar a day? Basically, the problem there for Boeing was if we do not do it, Airbus is going to do it, and if Airbus does it they capture the whole Chinese market and then we are going to be behind and competitively disadvantaged. That story is playing out in Brasil, it is playing out in China this idea that the emerging markets are demanding technology transfer as a condition to access to their markets and how that in turn is going to affect U.S. jobs, and therefore U.S. protectionism, is a big growing concern.

As a conclusion, we are bullish on Brazil. We believe there is an enormous future potential there. It is said that president De Gaulle commented that Brazil is the country of the future, and always will be. For us of TCW Latin America Partners, the future of Brazil is now.

Mario L. Baeza, 46, graduated from Cornell University where he majored in Economics, Government and Psychology (Triple Major). In September 1996, he became Chairman and CEO of TCW/ Latin America Partners, L.L.C., a limited partnership owned by Baeza & Company and Trust Company of the West. The Fund's purpose is to make privately-traded equity and equity-related investments in privately-held companies in Latin America that have the potential for growth and capital appreciation in a 2 to 5- year time frame.

At the age of 29, he became partner of Debevoise & Plimpton, a 35-lawyer Latin American Group, focused on privatization, global finance, trade financing and other transactions involving the laws of Latin America countries and Spain.

Some of Mr. Baeza's academic appointments include a lecture course, "New Technology and the Law," at Harvard Law School (1983-1985). The course, the first of its kind in the U.S., examined the legal issues arising out of the introduction of new technologies into regulated and unregulated industries.

L. Ronald Scheman

U.S Executive Director at the Inter American Development Bank - USA

"New Geopolitics of South America and Implications for Capital Markets"

I have been asked to speak today about the new geopolitics of Latin America and the implications for global capital markets. And I think it is very appropriate to be following Mário Baeza and his comments about thinking big.

We are going to be talking about geography as it relates to patterns of investment, how it influences patterns of investment, and in reverse or reciprocal matter, how the patterns of investment change the hemisphere's geography and influence its political development. I am going to speak about geography in the context of what my colleagues at the Interamerican Development Bank and I see as the context of project, project proposals, and project finance. And we see major changes going on in Latin America that will greatly affect global capital markets and capital needs. Before I get into this subject though, I would like to put it into the context of South America, Latin

America, and Brazil in the twentieth century.

Throughout most of this century, Brazil and Latin America were really relatively isolated from the main occurrence of global finance. In this century, our world was deeply immersed in the Cold War and is now recovering from it. The political environment in Latin America was rather parochial during this whole period. As a result, the world largely disregarded Latin America and disregarded the political and economical occurrences of the region. Nothing about the region conveyed any sense of urgency. The economies were too small, the population too scarce, communications too primitive. The major struggles that were going on for land and power that influenced the balance of power competition in Europe contrasted very sharply to the relatively benign, non-aggressive environment in Latin America.

With few exceptions, of which one was the

Chaco War in the 1930's, international relations amona the Latin American countries have been marked more by exiles attacking their own government from foreign bases than by any intergovernmental conflicts. And this is reflected in a comment that was made by former Secretary of State Henry Kissinger many years ago, in the context of the Cold War, when he said that Latin America is a giant dagger pointed at the heart of Antarctica. But today, that has all changed. With the end of the Cold War and with the new forces that are emerging as a result of global economic competition, a new era in Latin America and Latin America's role in global affairs is about to unfold. Almost without exception, we see the nations of the hemisphere undertaking prodigious fiscal, economic and administrative reforms. They are slashing government budgets, they are bringing inflation under control, they have begun a process of profound institutional change and modernization of the state, they are privatizing the public sectors. Even more important are the unprecedented changes taking place in the structure of the societies.

What we see in Brazil today has to be put in that context. Masked by the modest, very modest economic changes in the hemisphere over the last two decades, there have been almost seismic changes going on that have basically transformed the Latin American and Brazilian societies. These are changes in production, changes in urban planning, changes in government philosophy, changes in civil society, and most important, changes in attitudes. The changes in Latin America and in Brazil, as important as they are, however, are really only beginning. There are many bridges that we still have to cross before we realize the full potential of the region.

Latin America today has political freedom, but it only has the beginnings of real democracy. It has open markets, but not a market economy. We have trade agreements but no infrastructure for trade. The old statist approaches are being discarded, but the institutions that can effectively tap citizen participation are not yet ready. In spite of this, the trends are clear. Latin America has put an era of dictatorships and protectionist governments behind it, and is moving rapidly to consolidate its opened democracies and markets. Among everything that is going on, nothing is more dramatic, I think, than the topic that I want to talk with you about today, which is the impact on all of this on the geopolitics of the region.

The changes that are going on in the investments that affect the geographical ties in this hemisphere are very similar to those that opened the North American continent in the United States in the nineteenth century. Today the pattern is already set and we see it as we look at the landscape of the region with new trade routes crossing out from Peru to Argentina, from Brazil to Chile. These trade routes are crossing the Andes, linking the Atlantic and Pacific Ocean, and opening the heartland of South America. Let us look briefly but carefully at what is going on, simply from the types of projects that are now being presented.

The network that will connect the Paraguay River, the Paraná River, and the Rio de la Plata basins will extend river traffic from remote areas of Paraguay and Bolivia to the Atlantic Ocean, Uruguay, and southern Brazil. There will be a major water way that is analogous in terms of economic importance to what the Mississippi was to the United States. And as the water way opens up the rich, agricultural lands of southern

Mato Grosso, southeast Bolivia, and Paraguay, the region will begin to open up to global markets. The traffic from the water way, emptying out into the Atlantic Ocean, will move towards Montevideo and Buenos Aires, and Montevideo will become one of the major ports of choice. Buenos Aires, which has been the preferred port of choice in history because it has always been a natural outlet for the fertile lands of Argentina will gradually, over time, yield to a growing Montevideo, which is a natural deep water port. Montevideo will also become increasingly vital to

southern Brazil as a new road from São Paulo moves down through Curitiba and Rio Grande do Sul into southern Brazil and makes it one of the favorite ports for southern Brazil.

There are equally significant investments in other areas. A two-billion dollar gas pipeline will bring gas from remote gas fields in Bolivia to serve the markets of

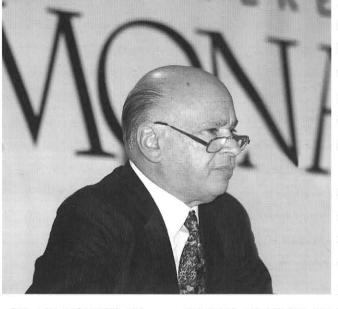
São Paulo and southern Brazil. This will accelerate the development of the entire southern part of the continent with increasing income for Bolivia and cheap energy for Brazil. New pipelines will begin to tap the enormous gas fields of southern Argentina, linking them to Chile and Uruguay. Options that the Inter American Development Bank is presently studying are fourteen different passes over the Andes between Chile and Argentina. A master plan for energy transportation for the Andean group was recently developed by the Andean Development Corporation. Roads linking the Atlantic to the Pacific, from Brazil

to Chile, from Argentina to Chile, crossing Paraguay and Bolivia are well underway. In some time, I would say fifty years from now, southern Latin America will not be recognizable as it is today. Countries such as Bolivia and Paraguay and regions such as the interior of Brazil, which were on the sidelines of Latin America's development in the past when trade patterns flowed from the coast outward to Europe and North America, will gain new relevance and economic importance as their territory and the rich, beautiful but landlocked lands begin to produce

for global markets. Instead of being backwater countries, Bolivia and Paraguay will become new transportation hubs, and the Chaco could well become the Chicago of the continent.

Now in the midst of all this is need for investment capital. And this is very important, because it is one thing to discuss trade agreements, and it is one thing to

sign trade agreements, but it is quite another to do trade. To do trade, we have to move goods, and that requires good transportation, that requires ports, requires power, requires communication. The Interamerican Development Bank, our bank, estimates, as one of the speakers mentioned yesterday, that 60 billion dollars a year is going to be required for the next five years for infrastructure development, increasing at a 5% rate year thereafter. There is no government in Latin America that has the resources to undertake this task. Now we all know that in these days of growing democracy, increasing taxes to



finance investment is not only counterproductive economically, but it is counterproductive politically. Thus, only the private sector has pockets that are deep enough to foot this bill. Inevitably, this means increasing privatization of both infrastructure and project finance.

The economic forces driving the geographic penetration of central South America are now, in my view, irresistible. And as I mentioned, they are very similar to the forces that drove the opening up of North America in the nineteenth century. The key has been the opening of global markets and the reduction of tariff barriers. As Latin America begins to produce more for the market of the developed countries, the countries are diversifying their productive capacity and have more to sell to each other. Economies that were once competitive or producing the same primary products only twenty or thirty years ago, are now becoming complementary. These markets will drive the new trade patterns and regional trade groups that are sprouting up and that will continue to sprout throughout the continent: Mercosur, the Andean group, the Central American Common Market, the Caribbean Common Market.

I have to agree with Fred Bergsten's comment yesterday that all of these are very much in the interest of all of the Americas and very much in the interest of the United States and Brazil. The opening of the South American interior is combined with stable energy supplies and will begin to generate the jobs that are needed for the new agricultural and industrial areas as it spreads throughout the region. In a way, this answers some of the issues that were addressed by my colleague from the World Bank this morning, because if these issues are handled well by the countries, the open-

ing up of the new geographic regions will help reduce one of the scourges of Latin America's development, which has been pervasive poverty. We only really overcome poverty when poor people are given the opportunity to produce value-added goods, and they can only produce value-added goods when they can get them to the market, and they can only get them to the market when the transportation infrastructure is in place.

Similarly, there are geographic and geopolitical forces affecting other regions of the hemisphere, in Central America and in the Caribbean. One can see a very similar economic integration movement emerging within Central America, as happened in Mercosur. At the Interamerican Development Bank, we are working with a new power grid for Central America, with roads that link the countries, and with the combination of the Central American and Caribbean regional capital markets, which are small and illiquid.

There is another component to the geopolitical picture which is also very important to the politics of the region, and that is the wealth of resources that South America has. We know that throughout history, access to natural resources has been a dominant factor in economic power. It certainly has been a very important factor in the economic power of the United States. Latin America has an enormous wealth of resources in oil, in iron, in coal, you name it. You go all the way through, and these are relatively untapped resources that will become increasingly strategic in a world of depleting resources and political instability. It was nearly a century ago, if we look back, that a British statesman pronounced his famous dictum about Eurasia being the heartland of the globe and the strategic base to dominate the world. Such thinking influenced a great

deal of the activities of the European powers during the early part of this century. However, the world then was still largely agriculturally based. His central premise, however, still remains valid: resource-poor societies will always be dependent on resource-rich societies for their survival. And this is one of the driving considerations behind the World Bank's designation of China, Brazil, Russia, and others as major markets.

However, we see a major change in the world today. The economic resources that are necessary in an energy-dependent industrial world have markedly changed since the British statesman set forth his analysis. Resources, far from being relegated to the scrap bin by the technological revolution, may be in greater demand in the coming century. As development spreads throughout the world, billions of people in Asia, Eastern Europe and South America will be coming on to the market. Inevitably, the purchasing power will be directed first to tangible material goods, to the houses, to the appliances, to the cars, that we take for granted as we move on to the technological and the post industrial revolution.

Ironically, it is going to be the dynamics of development, that we are pressing today to reduce poverty and enable the masses of poor people to enjoy the benefits of economic development, that will generate heavy demands on natural resources and on energy. The pressure and the competition for the limited supplies of natural resources will become increasingly fierce. Prices for raw materials will reflect this competition, and most important, disruptions of the lines of supply as result of global instability will be a major danger to the global economy.

Thus, I would venture to offer an amend-

ment to the British statesman's dictum. It is not the heart-land of Eurasia that will drive the domination of global economic commerce, but the untapped resources of South America and Africa. Of the two, only South America really has the infrastructure that matters in the coming century. Energy I think is the prime example. The Western Hemisphere is the only relatively stable region in the world that has the potential for energy self-sufficiency. Venezuela's reserves of heavy oil, alone, are at over a trillion barrels, which are three times larger than those of the conflict-prone Middle East. With energy security, an increasingly important factor in investment decisions, capital from Europe and Asia is already diverting to the Americas from the most troubled areas of the world.

The opening up of new gas fields for private exploitation in Venezuela and Columbia, where some very important discoveries were made recently, and now in Brazil, will make a major difference in the perception of the investors in the region. For Brazil, as well as for the United States, this has important implications, for it is importing 50% of its fossil fuels, really a level not seen since the oil crisis of the 1970's. Secure lines of supply in the energy and resources industry will be the vital cushion against supply shocks and economic disruption, if economic and political instability affects other regions of the world.

It is clear that the new global economy requires re-formulation of our geopolitical thinking. But the abundant resources of that string of mountains that extends from the Canadian Rockies right down through Central America, to the southernmost Andes, that is really the backbone of the global economy. Obviously, in peaceful times, our markets will insure access to the re-

sources in the competitive global economy, no matter where those resources originate. But the critical goal will be to insure the viability of supply in the case of political instability in many countries that have yet to undergo the transition to democracy, and here the advantage of Latin America is natural and clear. No other area of the world is as secure with the democracy, with open markets, with the peaceful cooperation in an international environment as the Americas, and this is much to the benefit of all other countries of the region.

Let me mention briefly three other trends that are emerging with these geopolitical and economical alianments that will profoundly affect the way business is done in the region. First, there is a significant diffusion of political and economic power, which has now totally reversed the traditional power patterns of governments in the hemisphere, and increased the importance of local and municipal governments in development activities. Second is inter-regional trade, where investment in the entire region is being transformed as a result of the changes taking place for the opened economies. And third is the emergence of liable capital markets, with the increasing attention to the integrity of the markets through the effective regulatory and supervisory institutions. This has been a prime concern of the Interamerican Development Bank, the World Bank, and the IMF, and we can see every indication that the seriousness with which these issues are being addressed throughout Latin America and Brazil has a strong, positive promise for the future.

Let me conclude by saying that the implications of these developments for Brazil are enormous. As Brazil's productive capacity grows, as its markets expand, as jobs are created to deal with the enormous capacity of this country which most of us forget is today larger than the United States was in 1950, and has a GNP larger than the United States in 1950, and is today, as other speakers have mentioned, double the size of Russia, these developments have enormous implications for Brazil and indeed for the move to Mercosur, to Nafta and to the Free Trade Area of the Americas. Indeed, the moves being made by Brazil today to expand its influence throughout South America really have the same historic magnitude I would say, as chancellor Helmut Kohl's rapid movement to unify Germany after the fall of the Berlin Wall.

Brazil's great future, as a great power, is linked to its ability to influence the trade routes and the patterns in the new South America, and this Brazil has clearly set its mind to do. In one way, trade is a higher-stakes game for Brazil in this dynamic trend and for any other element of its economic growth. Its inter-regional trade today is approximately 20% of its total trade. Argentina now exports more to Brazil than it does to the United States and to its neighbors. The key to Brazil's future capacity is to produce and increase its production. It is truly on the way to becoming a global economic power.

So let me summarize the seven basic points I think are important in the emergence of the new geopolitical elements in the region. First, we have enormous amounts of investments that will be needed to upgrade the infrastructure for trade in the region. Second, the new geographic regions for production, especially in the agricultural sector, will soon be coming on line. Third, increasing demand for natural resources of South America will continue to fuel the domestic economies of the region. Fourth, energy security, provided by the region, makes it the world's safest harbor for invest-

ment in the event of unrest in other energy producing areas of the world. Fifth, new trade patterns will spark domestic demand in the region, and inter-regional trade will continue to grow as the countries begin to produce more goods to sell to each other. Sixth, decentralization of government functions will create new powers, open up new markets for credit enhancement, and lend new vigor to the capital markets. And seventh, the privatization of the pension funds, and opening of capital markets, will provide increasing liquidity and good partners for infrastructure financiers throughout the region.

In short, it is becoming clear that the changes taking place in Brazil and in Latin America as a whole, will make them an important partner of the Western democracies in the coming years. As they consolidate democracy in their own countries, press forward with open markets, develop their resources, and attain energy security, their growing economic base will assume greater importance among the global powers.

And Brazil, positioning itself in this evolving political and geopolitical reality will be the major force in the new South America, with prudence, care, and wisdom. We will soon see the emergence of what we may call greater America, with Brazil assuming a central role in the economies of South America as the United States has to North America. And that indeed will begin the new world of our new millennium.

Mr. L. Ronald Scheman, a U.S. citizen, has been executive director of the Inter-American Development Bank since 1993. He is also Executive Director of the Inter-American Investment Corporation, an IDB affiliate that supports small and medium-sized businesses in Latin America and in the Caribbean. Mr. Scheman has been active in Inter-American affairs in the fields of finance, law and academics for over thirty years. He also had extensive experience in the Organization of American States, having worked at the institution from 1961 (Assistant Secretary for Management) to 1983. In the sixties, Mr. Scheman founded the Pan American Development Foundation, focused on the creation of new patterns of financial and technical assistance to microenterprises.

Mr. Scheman has also had a distinguished career in academic affairs as Assistant Professor in International Relations at George Washington University.

Carlos Alberto de Paiva Lopes

Chairman, Ericsson Telecomunicações S.A. - Brazil

"Foreign Investments in the Brazilian Telecomunications Industry"

It is a pleasure to be here to speak about telecommunications and be able to say that this is a particularly interesting moment for Brazil, a country that has always been endowed with great potential and resources. Today, we Brazilians must pay a tribute to the government of President Fernando Henrique Cardoso, in view of its firm and coherent policies which are supported by public opinion.

At the end of 1995, Brazil had one of the lowest telephone service ratios per inhabitant for a country of its size. There were 8.7 telephone lines per hundred people, in comparison to over 30 lines per hundred people in most developed countries. Although it has the eighth biggest GDP in the world, the fifth largest geographical area and the sixth largest population, Brazil ranks eleventh in terms of telephone lines and 43rd in terms of telephone line per inhabitant among countries with more than a million installed lines. This was the situation in Brazil in 1995 and we can see that even compared with our South American neighbors, we were low on telephone lines. I do not think we need any further

study to realize that the needs in this respect are tremendous.

The government estimates that Brazil should have twenty million conventional telephone lines and seventeen million cellular lines installed by the year 2003. To attain this, it launched a program for the recovery and extension of the postal service's telecommunications system, known by the acronym PASTE. This program clearly shows that information technology has become the cornerstone of economic development and of society itself. This means that our country's relative backwardness must be repaired as a condition for recommencing the process of development. It is not merely a question of extending existing services, but of investing heavily in communications so as to build a strong infrastructure, essential for producing the wealth that the country needs for investment in the social area. President Fernando Henrique's program touches on other facets of the telecommunications field, but I think that this is sufficient to show how important telecommunications is to Brazil at this point.

Therefore, since 1995, various measures have been implemented, prior to the full privatization of telecommunications operations. They included the restructuring of the technical and management staff of companies in the Telebrás system - up to now the sole operators. The process of opening up the Brazilian market began with Constitutional Amendment No. 8 of 1995. In 1996, this telecommunications plan was included as one of the top priorities in the government's Brasil em Ação (Brazil in Action) program. In essence, this plan has two objectives: that of taking the country competitively into the world market and that of continuing with the ongoing efforts to overcome social inequalities. The plan aims at annual expansion and modernization targets to be reached by 1999, and medium term targets up to the year 2003. Total investments will amount to R\$ 90 billion in this period, or ground US\$ 12 billion a year. The following are the objectives to be attained in terms of fixed telephony: to move from 13 million terminals to 40 million at the end of the period; mobile telephony: to go from around 600,000 in 1994 to 23 million; public telephones: from 300,000 to 1,800,000. By the end of the year the number of data transmission subscribers, including the Internet, should certainly reach



20 million. Cable TV subscribers should rise from 200,000 to 16,500,000 by the year 2003. Users of pagers: from 200,000 to 6,500,000. And further, according to this program, it is expected that, up to the year 2002, Brazil will have grown by 24% in terms of fixed telephones and 10% in terms of mobile telephones.

Concurrent to this plan, new regulations in this respect were approved by the National Congress. Congress understood their importance and worked quite swiftly. Sometimes we complain of the time it takes Congress to make decisions but, in this case, Congress acted rapidly. First of all, it approved Constitutional Amendment No. 8, which allowed private capital to be invested in the sector and made provisions for the organization of the services and the creation of a regulating entity. Brazil was one of the few countries in the world whose Constitution established that the telecommunications business was a state monopoly. This does not exist in other countries and was revoked by this Constitutional Amendment. On July 19, 1996, Congress approved Law No. 9,295, which opened the satellite cellular service to private investment. This law established that concessions for the provision of satellitebased mobile cellular services would be granted to companies constituted and headquartered in Brazil for a period of fifteen years, renewable for a like period.

Brazil was divided into areas. Area 1: the São Paulo metropolitan region; area 2: the rest of the State of São Paulo; area 6: the State of Rio Grande do Sul; area 5: Paraná and Santa Catarina; area 7: Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Goiás Tocantins and the Federal District; area 10: Piauí, Alagoas; area 9: Bahia and Espírito Santo. It was provided that each consortium could receive a conces-

sion for two areas, one of which would be considered to be more financially attractive and the other less financially attractive. Following the tender process, so far the bids for areas 1,2,7,9 and 10 have been opened. A minimum price was set for the license and the consortia made their bids. In the case of area 1, the minimum price was set at US\$ 600 million and the winning bidder offered US\$ 2,647 billion, that is to say, 341% above the minimum price. In area 2, the minimum price was also set at US\$ 600 million and the winning bidder offered US\$ 1,326 billion, that is to say, 121% above the minimum price. The bid for area two gave rise to a few problems, which the Supreme Court is expected to resolve shortly. In area 7, the minimum bid was set at US\$ 270 million and the winning consortium offered US\$ 338 million, or 25% above the minimum price. In area 9, with a minimum of US\$ 230 million the winning consortium offered US\$ 250 million, or 8.7% above the minimum amount. In area 10, the minimum was set at US\$ 230 million and the winner offered US\$ 555 million, 141% over the minimum amount laid down by the Brazilian government.

Since the subject of this lecture is "Foreign Investment in Telecommunications in Brazil," I will now list the names of the consortia that took part in these tenders. So, for example, AT&T and STET, two big operators – one from the United States and the other from Italy - comprise the TT2 consortium; the BRAZCOM consortium includes South Bell from the United States. Americel, Bell Canada and TeleSystem, from Canada are consortium participants, as well as Brazilian pension funds providing local capital. Telet, Bell Canada, Telesystem, Mcom Wireless (with Brazilian capital), and Telmex — all took part in this tender. In this consortium

France Télecom is the operator and Banco Garantia and Teldine are Brazilian groups; Tess-Telia, a Swedish group; Eriline and CR Almeida, are Brazilian groups; Ligttel owns the construction company Queirôz Galvão, which is a Brazilian group operating in Minas Gerais and São Paulo; and KMT, the operator, is from Korea; the BCP consortium includes BellSouth West; the overall consortium includes DDI, a Japanese company, Motorola and Brazilian groups; the Vicunha consortium includes Stet; the Hutchson consortium includes, again, an operator from Korea and the BSE consortium includes Bell South and Hutchison, an operator from Hong Kong, well known as an investor in this field.

The growth projections for areas 1 to 10, especially areas 1 and 2 that cover all of the State of São Paulo are really quite significant. The next step, already provided for by law, will be the privatization of all of the fixed telephony services, which should take place shortly. When the time comes, the companies in the Telebrás group will be split off into 3 to 5 new companies, plus Embratel. At present, fixed telephony services are under Telebrás, a holding company for 22 other companies, almost one in each state, in addition to Embratel, which handles all long distance and international calls. So, the idea is to divide this into 3 to 5 companies, which will then be privatized. They will be responsible for all local and interstate services in their respective concession areas.

Embratel will continue to provide long-distance international services. The government and the ministry believe that this privatization of the Telebrás system will result in a greater inflow of investment into the sector. Besides this, the so-called A Band, which, today,

is operated by companies in the Telebrás group, will be split off from the present companies and then privatized. I would like to point out that the law passed by Congress is really quite a modern one. It is a law that is well in tune with what is happening in the telecommunications field. There was considerable support for not entering into excessive detail in a field in which technology advances very swiftly; so a law was passed that sets the framework for how things should work, but it does not go into details that could prove to be impediments to progress in this field. So, in this respect, it is quite a modern law that should help the country move forward.

In addition, the Ministry of Communications, based on the first related law, is about to issue the Invitations to Bid to companies and consortia that wish to tender for operating satellites in the geo-stationary orbit - one of the orbits to which Brazil has the right. It will also release a tender for cable TV and pay TV around a thousand concessions all over Brazil. One important aspect of this law, if we examine it in greater detail, is that it favors competition. In the case of Telebrás, for example, if we multiply the price at which its shares are traded on the stock market by the number of issued shares we come to an amount of around 38 billion. The federal government, through Telebrás, holds around 50% of the common stock, which gives it control, and this corresponds to approximately 20% of the total capital of the holding company. So, in principle, the privatization of Telebrás represents direct investment today of around US\$ 7.6 billion. So we have to take into account that the 20% of the capital held by the government really represents the controlling interest in the companies. The value of these shares should rise significantly once these companies are privatized. We can take what happened in the case of the CRT as a reference - CRT is a company operating in Rio Grande do Sul. It belongs to the State of Rio Grande do Sul and was partially privatized recently. I believe a significant premium was paid; if we multiply the value that was paid for a CRT terminal, which is just a reference, and apply this same value to Telebrás, then Telebrás would appear to be worth US\$ 77 billion. If we analyze the various telephone companies that have already been privatized in Argentina, Chile, Mexico, Peru and Venezuela, then according to some analysts the value is around 60 billion. So I think we would not be making any out-of-the-ordinary evaluation if we think in terms of 70 billion, remembering that we are speaking of the value of the holding company, Embratel and the 21 companies, one in each state. I also think that there is no need to go into great theoretical exercises for foreian investors.

A number of speeches have been given here - some not so optimistic, others more so - but whoever wishes to invest in Brazil - which I believe today is a politically and economically stable country and undoubtedly one of the potentially most important markets in the developing world - does not need to go into great theoretical exercises. I think there is recognition that the time is right. I think there will always be some risk attached to investing in Brazil and in South America, but I have no doubt that the greater risk is not being in that region. It is worthwhile, for those thinking of investing in Brazil, to read, for example, the World Bank statistics. But you need to circulate a bit, around the interior of Paraná, the interior of São Paulo, both Mato Grosso states, in Goiás. Whoever visited Ceará

four years ago and visits it again today, will clearly see that reality is much better than statistics. I do not know whether we should take pride in an enormous informal economy – perhaps not – but it certainly exists, and it is quite large. The statistics really do not reflect what can be seen in practice. This does not mean irresponsible optimism, and it does not mean that there are no problems, serious problems, problems that have to be solved, that must be faced with; but in terms of investment in the service sector, reality is much better than suggested by statistics.

To conclude, I would like to say that, besides Carnival and football – and we really are very good at football, there's no doubt about that, it is beyond discussion – the real Brazil is a country whose technology is becoming better qualified each day, with manufacturing facilities not to be compared with those of our neighbors, and a significant consumer market. Brazil today has the unprecedented will to take part on an equal footing with the nations making up the global market. I think that in the fields of telecommunications, infrastructure, electric power, and oil, purely speculative capital will not be welcome and, if it comes, it will get a few surprises, because in these fields it is not the type of capital that gets results.

Carlos de Paiva Lopes, 65, is an electronic engineer who graduated from the Air Force Technological Institute (ITA), São José dos Campos, São Paulo, in 1957. In the course of his professional career, he was Vice President and later on CEO of Telesp –

Telecomunicações de São Paulo (São Paulo Telecommunications company), Director of Research & Development at Telebrás, President of Ericsson Telecommunications. At present, he is Chairman of Ericsson's Board of Directors and Director of the Industrial Infrastructure Department at FIESP (Federation of Industries of the State of São Paulo), as well as a member of the Regional Board of SENAI (National Service for Industrial Training), member of the ABIEE Board (Brazilian Association of Electric and Electronic Industries), member of the Deliberative Board of ADVB (Brazilian Association of Sales Directors), member of the Institute of Engineering Deliberative Board, Mr. Lopes has attended many seminars and delivered a series of speeches in Brazil and abroad. Among others, he was granted the title "Engineer of the Year" (1995) by the Institute of Engineering

Júlio Salvador Nazareno

Chief Justice of the Supreme Court - Argentina

"Standards for Juridical and Institutional Harmonization in Mercosur"

Legal harmonization has been and continues to be a concern in Argentina and in Brazil, Paraguay and Uruguay. It is therefore, not inappropriate that it should be the subject of a short lecture. With regard then to the legal and institutional harmonization of regulations in Mercosur, I think the first thing to be said is something more basic, more fundamental, I refer to what already exists on the subject of regional integration in the respective constitutions of the Mercosur member countries. And on this subject I must point out that in the 1988 Brazilian Constitution, there is a sole paragraph to the Article Four that lays down that the Federative Republic of Brazil will seek to promote the economic, political, social and cultural integration of the peoples of Latin America, for the purpose of forming a Latin American community of nations. Brazilian specialists know quite well what the establishment of a

supranational body represents. Articles 22, 23, and 24 of the Constitution, which refer to the type of powers, are in fact, an obstacle to integration since there is no mention in the text of the ability to delegate authority to a community body. But, I must also point out that, in the statute itself, there is nothing to prevent the adaptation of the treaty or of local laws. This issue was studied by the Supreme Court, which ruled that an ordinary law would have the power to modify the application of the treaty itself. That is how I interpret the Brazilian Constitution on this question of integration.

With regard to the other members of Mercosur, I would quote the case of Uruguay. The basic law of Uruguay contains just one paragraph on the expansion processes. This is the second part of Article 6, which establishes that the Republic will seek social and economic integration with Latin American coun-

tries, in particular with regard to the common protection of its products and raw materials, and that it will take all the necessary actions to complement its public services for this purpose. There is nothing to prevent the adaptation of treaties or the constitution and the tendency in case law is to assimilate the treaty into the law of the land, using, therefore, the principle that the later law takes precedence over the earlier, without preju-

dice to the origin of the law.

As regards the Mercosur member countries, I will now refer to the constitutions of Argentina and Paraguay. Paraguay's 1992 Constitution is, jointly with Argentina's, the most advanced. Article 145, called the Supreme National Legal Order, provides that the Republic of Paraguay, on equal terms with other countries, will admit a supranational legal order that guarantees respect for

human rights, peace, justice, cooperation and development in the political, economic, social and cultural fields. Such decisions can only be taken with an absolute majority in both Houses of Congress. With regard to the precedence of the treaties, the Constitution provides that they should form part of the internal order, with precedence as established by article 137. This, in turn, establishes that the supreme law of the Republic is the Constitution. The Constitution, together with internal and international treaties, accords, conventions and agreements, as approved and ratified, laws approved

by Congress and other legal requirements of lower precedence make up the national legal structure.

I wanted to read these constitutional provisions, and I make a point of quoting them, because we cannot do without these provisions when assessing what we need to do to harmonize regulations within Mercosur. We have always been quite clear, in terms of our regions, on the various occasions we have been in

contact with many of our friends in Brazil. As I always say, we have been ringing the warning bell that these constitutional provisions are fundamental to ensure a solid legal base, and to give a foundation to the investments that may be made in our continent, to give them legal guarantees. In our country, we have an amended constitution, whose article 75 states clearly that it recognizes the validity of treaties, and the American convention on hu-

man rights, and the whole issue of crimes, and the rejection of discrimination, etc. It also acknowledges that there is constitutional precedence in the application of their validity. Article 24 sets forth that the nation's Congress must have the option of approving integration treaties that delegate authority and jurisdiction, on a reciprocal and equal basis, to supranational organizations that respect democratic principles and human rights. This is of the utmost importance for integration. It also stipulates that regulations resulting from this will have precedence over ordinary law. This is what the Argen-



tine Constitution states, in resounding terms, in Article 75. I must also say that, even before our Constitution was amended in 1994, the country's National Supreme Court, over which I have the honor to preside, had already clearly established this precedence of international agreements over internal legislation. We know that the Argentine Supreme Court acknowledges this precedence over local law.

The 1994 constitutional reform led us into a case law situation that is of the utmost importance to our future as a community of nations. I have been arguing for a long time with Brazilian and Uruguayans, in Asunción, Montevideo and Florianópolis on this subject of the precedence of community law over local law. And we have been signaling very clearly that, if Mercosur is to have this vocation that we want it to have, then our constitutions have to be adjusted first. Acceptance of the precedence of community law over local law is essential because this is the only augrantee, the only legal safety net, that investors can have, and must have, in order to become entirely incorporated into our regional economy I believe that this community law, this vocation for integration, is undoubtedly born - as we have said on several occasions - of a great vocation for economic solidarity. Today's speakers, and others that spoke earlier, have already commented on the importance of these investments, these economic interchanges between the member countries of Mercosur. We are certainly facing an explosion of economic activity among Mercosur member countries.

It has already been pointed out that the European Union owes its success chiefly to the creation of the Luxembourg Court, and the creation of

community regulations that must provide guidelines for the members of the community. I think that this court, which deals with the differences that arise daily between members of the community, was a pioneer and often acted as a legislator, establishing clear rules of the game, binding on all members of the European Community. And this example of the European community, in my opinion, is an example that we, the Mercosur community, should follow. We have already said that these forms of integration arise out of economic needs, tend to develop with a certain disregard for legal aspects, and come up against conflicts that increasingly show the pressing need to build a set of clear rules within what is institutionally necessary and correct. There are countless examples. Trade has been increasing substantially between Brazil and Argentina since 1992, and we are already starting to have problems with cars. We have also had problems with pharmaceuticals, and now we are witnessing problems with sugar. In other words, there is a whole sequence of problems that are not good for either Brazil nor Argentina, and we, the legal specialists, have to examine these problems. We see them as a lesson of the need to create solutions within a clear and rational political framework. In other words, we are well aware that political solutions, often in response to the needs of the moment, are established by the political powers.

During the meetings between presidents Menem and Fernando Henrique Cardoso to overcome this whole range of problems in the car industry, we became aware of the demands of the countries undergoing tough negotiation to solve these problems. And we, in the legal sphere, believe that this is not a good solution, it is not the right way. The solution should

be found within a legal framework and we grappled already at the Ouro Preto meeting at which Brazil was present - with the heads of the courts of Mercosur member countries. We favor the creation of a supranational court and of local judges applying community law directly, so as to arrive at a solution to the problems between Brazil and Argentina related to the car, pharmaceutical and sugar industries. Naturally because of its size, these problems led the two presidents to try to act jointly with the chancellors of both countries in the search for a solution. My argument is that many people, many companies, small and medium-sized companies, small and medium-sized producers who cannot find a political or legal solution go through a lot of suffering. The small producer, that takes vegetables, fruit, cattle or cereals to another country, cannot always count on attracting the attention of the president of Argentina or Brazil to solve his problems, and he needs an urgent solution and, with nobody to turn to for help, he is lost. This is our concern because, in fact, these are the people that create the markets.

Cars, pharmaceuticals and sugar, are major subjects, and generally speaking it is a question of major industries at loggerheads with multinationals or other major industries. Then, yes, the protagonists manage to attract the attention of presidents, but the great majority that makes up the market of Mercosur, are small and medium-sized producers, small and medium-sized companies. And these, who are the majority, are pushed to the sidelines and left to their own fate, and we have to act.

I propose that we should pay close attention to all the problems that will arise in the legal field. I know that it is a difficult subject because it is

essentially a cultural problem. It is not easy for countries to acknowledge, as Argentina has done, the need for constitutional reform. It is not easy to say that we are aoina to delegate jurisdiction or sovereignty. We know that attempts are very often destined to fail. Yet, today the Argentine Constitution states quite clearly that "delegation of authority and case law goes to the supranational court so that any conflicts arising between member-nations of Mercosur can be resolved." It is not easy for our judges to accept this delegation of authority, because all our generation was brought up with a very rigid concept of sovereignty, a concept so rigid that it could never allow a decision to be handed down by a foreign court. That is why I believe we now have a great novelty in community law, namely, the principle of solidarity, which can form the basis of community law. This is the principle of surrender on the part of the member-countries, whereby they surrender part of their sovereignty to accept being subject to a supranational political order.

This legal solution will, undoubtedly, be a triumph for this fledgling Mercosur – incipient for the time being from the legal point of view, and the economic point of view. Mercosur has already been converted into an explosion of interchanges of wealth, but we need to preserve this Mercosur and we can do this through its legal ordering. Its internal legal order will in fact be an essential condition for its success.

There have been many failed attempts in Latin America, precisely because we have ignored this principle of the legal organization of the region. I think we should all become aware of these general concepts, especially those of us who have this chance of discussing the subject in international forums such as

this one. We really are interested in ensuring the success of Mercosur. I believe that in all the member-countries, and I include my own country, Argentina, we have two clear tendencies. On one hand, we have the position of the judges, the jurists, and lawyers that seek a solution to their conflicts, that want to find a solution within a legal framework. On the other hand, there are the decisions of the politicians who believe that conflicts should be solved in the political arena.

I am facing a group of businessmen and someone said yesterday, I do not know if it was Diego Guelar, that it is often necessary to impose bureaucracy, that it is often necessary to create a legal and administrative organization to be able to properly channel the demands of individuals, because it is clear that it is not just the states that are responsible. States are also accountable to individuals. And it is precisely the nationstates that must apply community law. Professor Jobim referred to the concern about finding solutions within Brazil. But I intend to be a little broader in this: I think the legal solutions have to be found not only within Mercosur but also within all the countries forming part of Mercosur. We also have to think of the other members, the partners, because we often ignore them in our negotiations. I have paid close attention here as I listened to the various subjects being presented as essential solutions for Brazil and Argentina, for Argentina and Brazil, but what about Paraguay and Uruguay? They too are part of Mercosur and solutions must be found among all the member countries. A smaller country should not have to remain on the sidelines while everything is being done to consolidate Mercosur.

I do not want to go any further on this subject here, but I repeat that for me it is clear, in the

general context of these meetings, that the legal framework is somewhat out of the central theme that we are gathered here to discuss. But, in any event, I want to repeat this thought here as something to be reflected on, so that businessmen and judges can also reflect in a mature manner. The solution is clear: there must be legal and political options.

As journeying to and by the presidents to resolve a series of problems becomes ever more frequent, it will become necessary to have a court and, furthermore it will have to be a court that has the authority to control the situation, to define tough rules that will guide not just Mercosur member countries but also investors wanting to take part in this venture of ours. We are talking, and I repeat it once again, about a new law, a law of solidarity, a law of surrender as I said a moment ago, because we shall have to surrender national authority and, therefore, the concept of sovereignty will have to become more flexible. We shall have to think definitively of this community law consolidated in this solidarity; that this surrender is the law of the love of the people; it is the law that all members of Mercosur should ardently desire, so that they can be united, not just in economic terms but also through cultural ties, through the political system, in short, through a real integration that can overcome obstacles, one that can foster and fortify these economic interchanges, which have been the principal topic of debate here at these meetings.

Julio Salvador Nazareno, Chief Justice of the Supreme Court of Argentina since 1994, holds a Law degree from the University of Cordoba (1965). He has been municipal administrator of the city of Rioja.

Since 1990 he has been an Associate Justice of the Federal Superior Court.

Mr. Nazareno was also Professor of Criminal Law at the Military Officers School of Rioja Province.

He is honorary member of the Association of Professionals in Criminology established by the School of Criminology in Spain.

In 1991, he participated in the 1st Meeting of the Chief Justices of the South Cone (Latin America) and in 1995 he delivered a speech at the Conference of the Chief Justices of the Supreme Courts of the Americas held in Washington D.C. Mr. Nazareno also took part in the Seminar "The European Union and Mercosur" where he lectured on "The solutions to controversies and supranational Justice".

He is the founder of Mercosur Law School (located in Montevideo, Uruguay) and a member of its board of directors.

Jorge Stecher Navarra

Member of the Board of Banco Popular Español - Spain

Represented by Amable Gonzales Cuesta Secretary of the Executive Committee

"Spain and Mercosur - How to Strengthen our Ties"

I shall present this report in three stages: the first is to recall the cooperative ties between the European Union and Mercosur. Next, I shall refer to the favored position of Spain in this cooperation and finally, I shall talk about the reasons for continuing this cooperation.

More than 500 years ago, Christopher Columbus, a resourceful and typically European seaman, discovered the New World with the help of Spain. In the following century, other seamen, soldiers and adventurous missionaries took European civilization to the new continent. Later on, Portuguese, Spanish, Italian, German and Dutch immigrants mixed with the indigenous people and began producing a new combination, leading to the modern demographic structure of Latin America. As time went by, commercial relations developed between the old and the new

continents, as did investment flows. Joint ventures were formed and European companies began to set up factories in Latin American countries. The result is more than clear. Latin America was influenced by Europe and European culture from the earliest days and, in spite of historical vicissitudes, has always kept up a close and fraternal relationship with the Old World.

Nonetheless, when the European Community came to life in 1958, the impression was that it was more concerned with its own establishment and with the relationships with its neighbors and had forgotten about Latin America. We had to wait until the 70's to see the community expand its horizons and begin to define a policy of cooperation with the countries of Latin America, progressively establishing relationships which were more in line with its calling, mutual interests and affinities. Since then, after the so-called first generation

agreements had been signed with Brazil and Uruguay, and Spain and Portugal joined the Common Market in 1968, the European community put Latin America on its map and encouraged relations with the region from the Rio Grande to Patagonia. Additional work in this respect was done by commissioners Abel Matutes and Manuel Marin. This took place thanks to economic, industrial, scientific and technical cooperation agreements, in which, for the first time, less traditional subjects were approached, such as the environment and the struggle against the drug trade, thus arriving at the so-called third generation agreements with several countries.

At present, the world is witnessing the establishment of large trading blocks in Europe, America and Asia. Latin America is also going through a period of re-designing its continental policy. It is seeking to open the way for the creation of cooperation mechanisms between the countries of the greater region. Following a whole series of timid attempts at cooperation between the European Community and the Andean Pact, with the Contadora Group, with the Cartagena Accord, with the ALADI, closer contact was begun with the so-called Rio Group, a political forum bringing together most of the Latin American countries. And, from then on, Argentina, Brazil, Paraguay, and Uruguay moved forward to the negotiations for the formation of Mercosur, the Southern Cone common market, Chile and Bolivia are also going to join. At the same time, since 1991, all of Latin America's heads of state have been getting together at the Iberian Latin American summit meetings to promote integration and democratic consolidation with the King of Spain and the President of Portugal. This then is a political milestone which defines the clear desire for cooperation and allows the expression "Iberian-American" to become more meaningful.

Mercosur was born when the Treaty of Asunciòn was signed in March 1991. At a meeting in the city of Ouro Preto in December 1994, it was decided to create a union between the founding countries on January 1, 1995. The union would have an international political identity and an institutional structure modeled on that of the European community. It would work as a customs union, with a common external tariff and free trade within the group, with a few provisional exceptions scheduled to disappear by the year 2001.

It is a concrete response to the world-wide tendency to form inter-regional groups, among which Mercosur is the fourth largest in the world with an aggregate GDP of US\$ 960 billion, coming behind the North American Free Trade Association, NAFTA, the European Union and Japan with its area of influence in Southeast Asia (ASEAN). Mercosur represents a market of 200 million consumers accounting for more than half the GDP of the whole of South America.

Negotiations between the European Union and Mercosur have progressed rapidly and the agreement within the inter-regional framework of trading and economic cooperation was signed at the Madrid Summit in December 1996. In short, the objective is the progressive and reciprocal liberalization of trade, taking into consideration the acceptance of certain products in accordance with the rules set forth by the World Trade Organization. It is also expected that this agreement will subsequently lead to a full association agreement.

Bilateral trade is growing and today the European Union is Mercosur's leading trading partner, accounting for 26% of its exports against 22% going to the United States. The European Union is also the principal foreign investor in Mercosur, accounting for 36% of all the investments, ahead of both the United States and Japan. The liberalization of trade between the European Union and Mercosur will bring about rapid growth in the volume of interchange and in the financial flows between both regions. In addition, the European Union has undertaken to help Mercosur in its own process of integration, by providing increased technical assistance. The South American group will take part in European research and development projects in the fields of information systems, telecommunications, urban planning, and others.

The European Union's Economic and Social Committee (CES) of which I am a member and vice-president of the group of European businessmen, has contributed actively to the development of these cooperative programs through the preparation of various reports and the holding of bilateral meetings in which representatives of Mercosur's social and economic organization take part. These include businessmen, labor union leaders, farmers, members of cooperatives, etc. that recount their experiences and ask for advice. Both sides consider these interchanges of information as an interesting and enriching experience. Among its other institutions, Mercosur decided to set up an economic and social forum organized along the lines of the European economic and social committee.

Concurrently, the "Latin America Academic Training Program (Alfa) was introduced, similarly to other community programs, to develop high level training programs and improve scientific and technological potential. At the same time, the European Investment Bank was authorized by the European commission

to make loans to Latin American countries. The objective of the ALL-INVEST Program is to help strengthen private initiatives on the continent and promote closer relations with European companies, especially small and medium-sized community companies wishing to spread their wings internationally.

The figure for the Official Development Aid from the European Union to Mercosur exceeds US\$ 2 billion. A cooperation program between the European Union and Mercosur includes humanitarian, financial and economic support as well as cooperation on environmental matters. Spain, as a member of the European Union, contributes to all these programs, which are proof of the willingness of the European Union to cooperate with Latin America.

In recent years, Mercosur member countries have engaged in substantial and positive reforms that give every reason for optimistic feelings about their future. Democracy is replacing decades of dictatorship, and is ensuring a stable political framework. There has been considerable effort at economic renewal. Controls have been done away with, markets have been liberalized, inflation has come down, GDP is growing, the stock markets are getting increasing international recognition, privatization is taking place, making private enterprise a factor in competitiveness, and the dead weight of the State has also been reduced. Consequently, the flow of foreign capital has already exceeded the level reached before the debt crisis in the so-called lost decade. The return of this capital is the best evidence of the renewed confidence in Latin America, which has again become one of the investment areas of choice.

According to data from Cepal, foreign

investment in 1996 amounted to US\$ 3.2 billion in Argentina, US\$ 8 billion in Brazil, US\$ 220 million in Paraguay and US\$ 190 million in Uruguay, an aggregate of US\$ 11.6 billion. Money on this scale signifies a major financial thrust for Mercosur.

Given these circumstances, and in view of the framework of cooperation between the European Union and Mercosur that has already been set up, Spain is becoming the European spearhead for interchange with Brazil and Argentina as well as with Paraguay and Uruguay, not to mention the close relationship with Chile.

Because of historical, cultural and linguistic ties, it is more than evident that Spain and Portugal represent a natural bridge between the European Union and Mercosur. That is why the Iberian Peninsular is most closely connected with Latin America today. This does not mean, however, that other countries in the European Community are not establishing closer trade relations and increasing their investments in the region. Historically, these meetings have led to South American economic development as is the case, for example, in Brazil, its largest market, where 70% of the major private companies belong to European groups, while only 20% of the country's companies are American-owned.

In recent years, trade between Spain and Mercosur has increased significantly, as testified by the growth of the import and export volume with the four Latin American countries. In 1994, total Spanish exports came to Ptas 196,634 million and imports to Ptas 277,636 million. In 1996, exports amounted to Ptas 315,495 million and imports to Ptas 267,371 million. The total foreign trade between the two countries, that is,

adding imports and exports together, has grown remarkably. In the last three years, this trade has risen 37%, showing the great interest in developing these bilateral trading relations.

While bilateral trade between Spain and Mercosur has grown substantially in recent years, the most visible impact, nonetheless, has been in Spanish investment in the region.

Among these investments, we must mention, in the first place, investments made by Spanish banks. The new phase of economic stability that seems to have started in Mercosur, the excellent business opportunities and the high operating margins are factors that have led large Spanish banks to make this investment, ahead even of the world's other financial institutions, as they seek to take advantage of what could be a truly historic opportunity.

In Argentina, Banco Santander, which already had commercial and investment bank branches, bought the Banco del Rio de la Plata. In Brazil, it has the controlling interest in Banco Geral do Comércio and Banco Noroeste. In Uruguay, it has two affiliates, Banco Santander Uruguay and the Medieval. Banco Bilbao Viscaya has management control of Banco Francês Del Rio De la Prata and of the El Credito Argentino. Banco Central Hipanico owns Asunción in Paraguay and its banking affiliate in Uruguay. In Argentina, together with the Chilean aroup Luksik, it manages Banco Tornquist. The Argentaria has branches in Argentina and Paraguay, and in Brazil it operates as a financial services company. In a short time, Spanish banks have become the leading financial institutions in Argentina and hold a significant market share in Brazil, Paraguay and Uruguay. In terms of total

loans granted by foreign banks in Latin American, Banco Santander is ranked first, with US\$ 17.5 billion; the HSBC is second and Banco Bilbao-Viscaya is third with US\$ 12.4 billion.

But it is not just the banking sector that has decided to invest in Mercosur. The telephone, electric energy, construction, tourism and other industries are also interested in developing their businesses in the region. Telefonica has invested US\$ 1 billion in Argentine TASA and Muticanal and US\$ 660 million in Brazil. We can safely say that today Telefonica is the bestplaced telecommunications multinational in Latin America. Gas Natural and Iberdrola head the consortium that won the privatization tender for CEG e Rio Gás in Brazil. Iberdrola also owns 20% of Poweco in Argentina and 66% of the Companhia Elétrica da Bahia in Brazil. Gas Natural owns 53% of the natural gas in Buenos Aires, ENDESA invested US\$ 740 million in ENERSIS. the Chilean electric power holding company through which it is present in various Latin American markets among which are Argentina, Brazil and Chile. REPSOL has invested in the Argentine company, ASTRA, which it uses as the center for its activities in the region. In the construction industry, Dragados is investing in the Autopistas del Sol of Buenos Aires; Dycasa, an affillate of Dragados and FCC, is investing in Autopistas Argentina; Acciona, an affiliate of Entrecanales y Cubiertas, is building a factory for Volkswagen in Brazil, and FCC is operating in the waste disposal and water distribution sectors in Argentina. Other infrastructure projects have attracted investment by Spanish construction companies such as Agromán, Cubiertas, Auxini and Ferrovial.

Insurance company MAFFRE has a 6% market share in Argentina, 13% in Brazil, 60% in Paraguay and

17% in Uruguay. With investment of around Ptas 45 billion, MAFFRE Insurance Company has become the biggest foreign insurer in Latin America.

The Campo Frio company, through its affiliate Campo Astral, operates in the beef slaughtering business in Argentina. In the tourism sector, it is worth mentioning the investments carried out by Sol Meliá and HUSA. For investors, the rises in the stock markets in Argentina and Brazil have attracted substantial amounts of money.

As we can see, the weight of Spanish interests in Mercosur countries has grown considerably. Evidence of this is that Spanish companies now account for around 7% of Argentina's GDP, which makes Spain the leading foreign investor and one of the chief players in the process of economic reform in that country.

Mercosur is a market yet to be discovered by small and medium-sized Spanish companies. The Spanish and Argentine trade secretaries have just signed an agreement to encourage setting up mixed small and medium-sized companies in both countries.

It is interesting to observe that investments continue to grow: in 1997 first half, Spanish investment in Mercosur grew substantially compared with the same period last year. Spain invested Ptas 155 million in Brazil, Ptas 75 million in Argentina and more than Ptas 1 million in Uruguay.

Why should Spain continue to beat the track to Mercosur? I think there are various factors which encourage on-going Spanish investment in Mercosur member countries. In the first place there are historic, linguistic, and cultural ties that make it easier for expatriates to relocate and to adapt. Besides this, in the light of the low interest rates prevailing in the industrialized coun-

tries, Latin America is attractive in terms of obtaining higher returns; liquidity is on the increase in this region, reflecting the growth of Mercosur markets; globalization encourages investment in low-cost regions. The feeling is that with the reforms that have taken place, the country risk has fallen. Privatization offers very attractive opportunities, and there is a search for portfolio diversification, which has opened up new horizons, especially for institutional investors.

Spain can also be a springboard for companies from other countries in the European Union that have already set themselves up in our country and wish to discover the new markets or extend their presence in them now opening up in Mercosur.

Although we cannot put aside any thought of the risks inherent in developing economies, we can put behind us the crisis of the 80's that led countries to stop payment of the foreign debt. The upheavals of the crisis in Latin America in December 1994 have also been overcome. Mercosur is thus very attractive to Spanish and Portuguese investors, as well as to those from other countries of the European Union.

Spain does not just offer its language and its culture; it also offers its successful economic modernization model. For all these reasons, Latin America can become one of the principal engines of growth for the Spanish economy itself in the 21st century.

Mr. Navarra, born in Spain, holds a Ph.D in Economics from the University of Madrid. Since 1974, Mr. Navarra has been a member of the Board of Banco Popular Español whose assets reach US\$ 34 billion. He is a member of the European Union's Economic and Social Committee (Brussels) and member of the Board of Mallorquina de Títulos SIMCAV, (total assets in the amount of US\$ 75 million) and The Allianz-RAS-Group (total assets of US\$ 800 million).

Mr. Navarra had a long professional experience in Brazil: he was Chairman of Alvorada Companhia de Seguros Gerais (of the RAS Group) from 1958 until 1973. Also during this period, he was Executive Director of Bankinter, Investbank Brasul and Comercial Brasul banks, currently Banco Itaú.

Mr. Navarra has published articles in magazines and newspapers from the following countries: Brazil, France, Italy, Spain and the United States.

Marc Pietri

President, Constructa S/A - France

"Civil Construction and the Entertainment Industry in Brazil"

The subject I was asked to speak on, the Entertainment Industry, is one that contains a paradox. Namely, what is entertainment? The translation of entertainment in French is divertissement, but how do we define amusement? Can we reasonably speak of the artificial manufacturing of amusement? That is the problem; that is the paradox. This notion of entertainment is linked to an urban phenomenon of the 60's and 70's, that took place everywhere in the world, but especially in the United States. We have seen what has happened, for example, in the last 40 years since the war. We have moved from the stage of the village and the town to the idea of nation. In other words, employment became the north, trade the south, housing the east and entertainment the west. Forced entertainment became western. The location I am referring to is not important. What I mean is that there was an attempt to compartmentalize things, and the link between everything was the car. But a car, unfortunately, cannot carry many more than two people. Therefore, the social functions of the town began to collapse and, then suddenly, we realized that we had lost the notion of entertainment, because everyone carried out his or her functions wherever they had to be done. In other words, a person slept in a bedroom, shopped wherever his or her office was located in the town, did other shopping elsewhere and, amused himself somewhere else in the town. So towns became empty and we soon reached the conclusion that the towns had been used up - towns that had 2,000 years of history, that had roads, streets, and lovely winding alleyways, that were reference points for the inhabitants.

What is the concept of citizen? First, it is what a person is in relation to others; second, it is communication, and third, it is dialogue. Now, it was precisely the shifting of retail activities to the outskirts of

the towns that emptied them, and turned French, American and other towns into deserted, artificial places.

The subject of retailing leads us to say the following. Forty years ago, the retail industry tried as hard as it could to re-establish this notion of togetherness. In other words, the idea was to find places where people could see and be seen by other people and engage in spontaneous communication, like people used to do in the towns and villages in the past. For 2,000 years, people who owned small farms and who needed to go to market either to sell their produce or to buy supplies would drop by the local café for a chat. This habit was destroyed and now the great modern retailer is trying to rediscover basic aspects of this conviviality. The result of this has been: first, the shopping malls, an attempt to inject life into the towns' retailing activities. For example, in Brazil today, there are shopping malls where people go shopping, yet these malls must also provide entertainment. That is to say, the mall has to be somewhere the family can meet, where there is social interaction. It is a custom such as used to exist in the old inns. In other words, in those times people arrived with their food, each person with his own snack, and they sat around a table and talked. Then came the multiplex movie theaters to bring people together. In fact, movie theaters are what comes closest to the old concept of the town, because things are seen in the movies. Things happen before our eyes, and in the towns, the movies used to fulfill precisely this function. For example, in Italy's small cities, movie theaters were a meeting hall for people. They were a form of recreation for people; young people went there to have fun.

Unfortunately, it was also in the towns that wars were declared. Young people would often

be called together to be indoctrinated and then they would go off to war. They would simply organize the departure for war, but the movie theaters were used for dialogue of any kind. A few movie theaters still exist today, but the big ones have vanished, and now we have invented the so-called multiplex theaters. These are movie theaters showing 20 to 25 movies at the same location, in a single building, with various films of different kinds so that families can go together and each family member can see whatever film he or she wants. In Brazil, we have also seen attempts at games. The town has lost its sense of security - as for example, in Spain - as a place for jogging and for people to walk around, where children and young people meet to talk and have fun. Now the virtual novelty is games. There are halls like small nightclubs where people go to play. It is a way of relieving pressure and tension. To put their worries aside and to get out of the artificial towns, individuals need to find places where they can meet as a family. What is Disney World, what is Disneyland? They are places which Americans - whose concept of family has collapsed because of the distances and their life style - invented as a place for people to meet. Florida is an example. Families meet there; we certainly find families there and people can see other families, and parents have more fun than the children. There is a third phase as well, which is that of finding safe places, really safe, guaranteed places where people can feel at ease, can let their hair down, can be happy. But is it easy to do all this? Is this the way to create amusement and entertainment? Naturally, because entertainment depends on each individual, there are people that fish, others that hunt, others that read, others that go into sports. Therefore, amusement and entertainment are,

above all, a state of mind. In my opinion it is not something that can be assimilated. The individual must be free, because previously, in the old towns, he could live freely. And now, the fourth generation of shopping malls, that are veritable towns, has come up.

This seems to be a trivial subject, but it is not. Rediscovering towns is important. Rebuilding towns outside the towns, restoring the towns is important. How do we build places where people can really sell their wares, live, work and play? But, as you know, amusement is a spontaneous thing. When someone goes to Paris, to Saint Germain, I do not know if he goes there to have fun, but the prevalent state of mind is such a happy one that people do have fun. Therefore, the state of mind is like a birth. It is spontaneous, the right time comes and you cannot impose things, factors, parameters or a few objectives on people to create the pleasures of life artificially.

The pleasures of life and entertainment depend on people interacting among each other. When we go to a town we sometimes come across poor people and rich people, yet there is no connection between them. Now, we need to create places where all social classes can meet, can see one another. We need to create places where interchange and dialogue can be carried on. That is why we need to restore the towns and downtown locations. Perhaps this theme can be seen as too philosophical, but it is not. This theme is a priority today for all mayors and all governments, and all citizens because, unless we decide what the future of the towns will be, it will be extremely difficult with just a few replacements, a few magical variations, a few solutions, to recreate states of mind and fun and entertainment.



that does not need lessons from anybody on having fun. Rio de Janeiro's carnival is a clear and evident expression of what I have just said, and the Rio carnival is not 100% organized. This lack of organization is what creates the really popular festival. When people are together under certain free conditions, they can feel pleasure, they can have fun and amuse themselves together. It can also be said that Brazil is still in the first or second generation of retailing. Today, there are around 3.5 million square meters of shopping malls in Brazil. The puzzling thing is that these malls are becoming smaller and smaller. I would like to comment on this. The reason why retailers and people have felt the need to escape from the towns is because of cleanness, functionality, parking, and convenience that did not exist in pre-war towns; but it is also a question of practicality, because it is so much easier to create a town from scratch than to try and adapt a town that is already there. Forty years ago, I remember that there were certain antique dealers who went from house to house in provincial towns looking for 15th, 16th, 17th and 18th century articles and they gave the country people, the former owners, plastic furniture in exchange, which these people preferred. It is much easier to create new materials than to repair existing materials. The cost of land and the knowledge required suggest that, if the retailers have left the towns, it is because the cost of land and the operating and maintenance costs have become too heavy for retailers to bear. We must not forget that, in terms of retailing, for example, sectors like restaurants and hotels can afford to pay high rents. Now a dry-cleaning shop, a shoe shop cannot afford to pay very high rents, but it is precisely the mixture of all shops that creates a true retailing environment. The people that could not afford these high costs of land left the towns and went to the outskirts. But there is a serious problem in Brazil because overall, in relation to other countries like France, Germany, and the United States, there is a cost even on the outskirts of towns. Land and maintenance costs are excessively high. Consequently, in the 3.5 million square meters of shopping malls - representing 230,000 shops or more - there is a tendency for regional malls to become ever smaller, because the investment required is increasingly high.

The Americans realized this early on because land is not so expensive there; they have a different idea of competitiveness and competition. For example, there is commercial center whose initial are was 50 thousand square meters; the next ones to be built in Miami exceeded 200 thousand square meters, that is to say, they were almost the size of a town. But this can be done in the United States because, first, land is cheaper than elsewhere and, second, because ev-

erything favors this development, through subsidies and incentives. The way of life there favors the construction of these malls. The second generation of malls, which has just been created, with malls going up in every corner, is supplemented and completed by an entertainment and amusement center for children, and another one for adults, together with a multiplex movie theater and a Food Court. These are new centers and, in these places, the new generations tend to create a theme for these centers. These centers are bigger, and therefore provide quicker returns because they are multi-functional. The investment, however, is still very high.

And there is still a huge market in Brazil, namely, the market for theme parks. But I would like to say a word of caution about this. Theme parks are very good when they are successful because they represent jobs. Construction creates jobs, then there are similar jobs, seasonal jobs, and jobs related to tourism.

We must not forget that, in a theme park, 56% of the money is spent on the entrance tickets, but 40% is spent on activities that are not the essential activities of the theme park as such, that is, on shopping, on eating, on hotels, everything revolving around this, which is fundamental. But we need to keep a few figures in mind with regard to what we have here in Europe. A theme park, a theme destination is an investment. We will not think about Disney for the time being. Disney would cost 30 billion in the first phase, and then much more, 5 or 6 times more. Total investment in the second phase would be another 20 billion. But the usual theme parks might cost around 850 million and I billion in the future. Therefore, these are interesting figures. 10% of the annual budget must be spent on communication, and 20% of the annual communication budget

must absolutely be reinvested. In the first year we observe the situation, in the second there is a readjustment and in the third there is new investment, in the fourth we observe, in the fifth year readjustment, and in the sixth year, new investment. Therefore, the current problem is that all the operating costs of these parks are beneficial, but nobody knows when return on capital will occur. In the United States alone, five companies are listed on the stock market letting others provide the liquidity of their capital. We have not managed to reach this point in Europe so far. Is there a solution? I think there is. Why do certain theme parks work better than others? In the first place, there are essential parameters for a theme park. First, we can quote the communication concept, movies. This is certainly a prof-Itable concept. The easier it is to identify the concept, the better a theme park's revenues will be. Second, we do not sell theme parks any more, not just theme parks on their own, I do not have a crystal ball here, but I think that we shall have to forget parks of the Disney type. Disney is Disney, that is all, it is something special; The whole of Florida is a theme park. We know perfectly well that there are other parks outside Florida, but Florida is the center of attraction. Therefore, there are reasons that must lead a theme park to develop, in other words, it has to sell a process. We cannot sell just activities, just games. We have to sell production, retailing and games as well. In the United States there is a retailing center, the Epcot center, that shows this well, in a minimalist manner. Epcot has pavilions that represent countries. The countries show their products and tell their histories. After visiting a pavilion, people feel the urge to buy, and then they cross over to the games and the restaurant section, because once the spirit is satisfied, then

the stomach needs to be satisfied too.

What we have to avoid in theme parks is competition and obsolescence. For example, I think that we all know that we have to change the attractions every 3, 5 or 7 years. And this means new investments must come out of the cash flow, which affects profitability. At present, the unbridled changes in consumer taste - the consumer follows fashion, and as you can see in the car industry, they manufacture limited series of 10,000 units of a car because people want to change, they want something different - demand an adaptation to meet that taste. It is also necessary to adapt to the competition. With theme parks, where companies are free to act as they please, where there is no regulation, we have seen the example of the area north of Paris where there was no room for ten theme parks, perhaps there was room for three, at most. So, how should we view competition? And conversion, in the case of theme parks is extremely difficult. Look, for example, at what happened in Nice: the theme park there is quite worthless. How do we put this right? We have to correct all this by providing special reusable structures. In other words, a theme park must have a commercial infrastructure capable of functioning outside the purely entertainment activity. It must have a production option for a company, an information option, and it must also have, a historic location rooted in its past, in its region, something corresponding to people's needs. It cannot be purely and simply a place of entertainment. Amusement is very good but is has no value, in itself. Amusement and entertainment are the result of a process. I go back to what I said before: what were towns before? Do people cease being citizens when they start having fun?

In Brazil, there is great potential for these theme parks, particularly in the southeast. Between Rio de Janeiro and São Paulo, São Paulo and Campinas, there are undoubtedly exceptional opportunities, but only if these conditions are viewed on a regional map and not in the context of a single plot of land. The decision to build a theme park must be accompanied by the need to meet a series of broad requirements and parameters for the whole region, as in Florida. So, I think that there is a future in commercial terms and in entertainment terms for Brazil.

Brazilian people like parties, they like to play - entertainment is a festival, it is a party - and they are lucky because they have the entrepreneurial spirit. Now is the time to rediscover the heart of the historic towns. This is the great challenge for Latin America because today downtown locations are worth nothing. Downtown locations have land going for less per square meter than housing on the outskirts. This is the case, for example, in Europe. The creation of shopping malls and the development of the outskirts of towns has destroyed competition in terms of land prices in downtown locations. The calculation of land prices was done in relation to the cost of the future commercial activity, of the future operation that was to be run there. This has been unfortunate in France, and it is something that should be avoided in Brazil. As I said a moment ago, why does a shoe shop, which can sell its wares alongside another shop selling household products, is less valued? Because it is always the future activity that is calculated, and thus, when we see that the return is 12% and when it is calculated that the shop could bring in 50 million, there has obviously been some mistake in the calculation. The calculation should have been done on the basis of land prices in the downtown location precisely to avoid this emptying of the towns.

We know that construction of new buildings has often taken place even on top of Greek-Roman remains. And the rules have not been respected in terms of construction nor land prices, and therefore, I recommend caution in Brazil. Brazil might face exactly the same problems because the cost of land can be extremely high. Therefore, we have to have this new idea. From the social, sociological, and economic standpoints we have to remember that: the towns already exist and now it is up to you to decide whether to empty them or rebuild the towns - which is impossible. We know this perfectly well, and here I am speaking of politicians and artists, because we have to see the price already paid, and when the town has been built, we have to build the transportation network, etc. In an old town the channels are already open, the networks already laid down; so we have to return the streets to the people, to the small shopkeeper, to recreate that generation that used to exist just as it was. The street is a place to be alone, to be with other people, a place for communication and dialogue. And those in Brazil exist, they cost nothing, they must be restored, and this must be done together with the public authorities. A downtown region like that of São Paulo represents one of the 20th century's main challenges, both in terms of quality and quantity, for a developer like myself.

This is what happened in the United States. The United States is already on its 4th generation of shopping malls. What we could build between 1988 and 1990 was a small 16,000 square meter mall, with four stories, in the open air, something different. At ground level there was space for people living nearby

to congregate - do not forget that what people are often looking for in a mall does not always represent what they really want. We have to look at the quality/ price ratio, but we have to look at it in terms of the neighborhood, because it is the neighbors of the mall who will be the customers in the first place. Then we must look at the life style and see how to organize and decorate it all. On the second story we have something resembling a crossroads. Everybody should find a meeting place there, a place for conversation, because people often only have enough money for small purchases, or sometimes they may have no money at all but just want to go for a walk. Therefore, it is a way for people to walk about in the mall and to meet other people. Last year, four million people visited the 16,000 square meter mall I mentioned a moment ago.

I shall conclude by saying that in fact this mall is not one that we built. It was opened at 6 o'clock in the morning, in the presence of the mayor – with no journalists – and of Miami-based religious orders who were there to give thanks because it was not a mall built by some megalomaniac developer. It was a project carried out by a citizen, a developer, who thought of doing something so that the people of that locality could get together and they could lay a stone that would be the foundation stone of the construction of whatever may be necessary for future generations.

Marc Pietri, 51, is President of Bellechasse S.A. Holding and CEO of Constructa U.S. Inc. He joined the company in 1973 as General Secretary and in 1986 became the company's major stockholder. The Bellechasse Group focuses on services related to the analysis, development and management of real estate problems adjusted to current circumstances but mainly to the real estate market's new conditions.

One of the Group's characteristics is its association and partnership with distinguished French, European and U.S. groups such as CGE, AGF, Credit Lyonnais, B.N.P., Societé Générale, Apollo Real Estate, Brasilinvest, Morgan Stanley and First Boston.

Ilmar Galvão

Justice of the Federal Supreme Court and Chief Justice of the Higher Electoral Court - Brazil

"The Improvement of Democratic Institutions in Brazil and Mercosur"

My speech will be about the Judicial Branch, an institution providing the basis for and the guarantee of, the exercise of democracy in Brazil. The political moment that Brazil is living through can be characterized as one of major institutional reform. Among the reforms in progress is that of the judicial branch of government and never in Brazil has the Judicial Branch been so discussed, never has the so-called crisis in the Judicial Branch been so talked about. To talk of crisis in the Judicial Branch is nothing new. It is a recurring theme in Brazil.

What is new is that, this time, the theme of the crisis in the Judicial Branch has moved out from the sphere of an arcane problem to be addressed by law professionals and is now viewed as a problem of citizenship, as a challenge for building democracy in the country. Moreover, it seems to me that today is the first time that the judicial branch has been referred to here

at this meeting. One of the businessmen here mentioned the need for a judicial institution that would guarantee, or that would convey, judicial confidence in our country. It really seems to me that the theme does not greatly diverge from that being developed at this forum. This circumstance, under which a problem in the judicial branch ceases to be an issue to be addressed by law professionals only and becomes a matter of confidence in democratic institutions is highly positive for us and for the country. It allows us to nurture the hope for structural reforms, which will derive from a political will whose affirmation is based on the assumption of our individual responsibility. This is so whether it is a question of the powers of the State or of the various segments of civil society and their share of responsibility in the crisis and in the effort to overcome it.

To this effect, we must begin by trying to overcome two very common attitudes in the continu-

ing discussion of the deficiencies of the Judicial Branch. The first attitude comes from those who blame the deficiencies of the Judicial Branch on the judges and thus refuse to take on any responsibility for the crisis. The other attitude comes from the judges themselves, who, in turn, transfer the problem to other authorities, attributing all faults in the Judicial Branch service to the lack



of human and material resources, in short, to the lack of sensitivity of the other branches with regard to the problem of justice.

Without the intention of engaging in an exhaustive diagnosis of the deficiencies and problems of

the Judicial Branch, we can summarize the crisis in a paradox. On one hand there are too few processes and decisions, coupled with a manifest incapacity of the judicial system to open up to what we have, what is commonly called pent-up litigation. In other words, this means making the system accessible to all those who need it, and who have no means of overcoming the complexity of the Judicial system to carry on their cases, their lawsuits. In our country, a huge part of the population is excluded from the mainstream of society and many people live in abject poverty. These people have no means of access to the judicial system or at least we think they have not found any means of access. On the other hand, there is an excessive number

of lawsuits, beyond all reasonable limits. This is the most visible problem and thus the one that is most uncomfortable, since it results in an intolerable delay in the judicial services. The main cause of this is the constantly increasing ratio between the number of cases and the number of judges, as the number of judges has not accompanied this growth. This is not a new problem for us, nor is it exclusive to the Brazilian judicial system. Our first court, founded in the sixteenth century, already suffered from these effects. At the same time we know that all over the world justice is slow. The average time needed for an Italian lawsuit, as far as I know, is similar to the delays encountered in our cases. The American system is no different. There is always a concern, in all these countries, with the so-called delay that produces the lack of confidence in the judicial system that, consequently, disturbs all those involved in these countries.

In our case, the problem is getting worse as the country develops and as the population becomes more aware of the concept of citizenship. The solution to the problem is to find a feasible path. Indeed, given the notable disparity between the number of lawsuits and the number of judges, we are led to think in terms of an immediate increase in the number of judges. We must not forget, however, that we are a country with countless priorities and a great lack of resources to meet them. It is not possible, therefore, to overcome the critical situation of having only one judge for every 29,000 people, when Germany has one for every 3,500 inhabitants. Therefore, in view of this crisis, our eyes turn to the opposite side of the coin, to that of reducing the number of cases and appeals. We then come to instruments such as special courts, and the binding effect of the decisions handed down by the Supreme Court and the High Courts on all other entities, not just in the judicial system but, more significantly, on the institutions of the Executive Branch. These are the two instruments that seem to be ones that could be put into place, which it would be feasible to put into practice in the short-term. Special courts have already been introduced in Brazil. We now have a law that created special courts that are already operating in various states, and will soon operate in the Federal Justice system. This law provides for rulings on lawsuits in which the Federal Government and its administrative entities are involved. The special courts make judges available to the population for the solution of small problems, both civil and criminal.

These special courts follow a simplified procedural system. The decision is handed down immediately, the formalities are reduced to a minimum and, most important, there is no chance for appeal at higher courts. The judges of the special courts themselves meet and hand down decisions, and there the matter is solved. The introduction of such courts has immediately resulted, in certain states such as the State of Amazonas. in a 50% reduction in the workload of the traditional judges and has dramatically cleared the shelves of the records offices. It has also meant - and this is a very important aspect of the special courts - that the population segment without prior access to courts and legitimate legal recourses now has such access. This is the case of consumers who were disappointed when they purchased any defective item, and were further disheartened by the law's delay and by the cost of resorting to the traditional courts. Nowadays, the special courts provide a solution to such problems. So, if the special courts, on the one hand, have drastically reduced the number of cases coming before traditional judges, on the other hand, they have also opened the doors of justice to those that have never had access to it before. The 1988 Constitution, more than any other we have had, depended heavily on the Judicial Branch for the legal resolution of conflicts, not just traditional conflicts, but also new conflicts, and collective conflicts. It reaffirmed the guarantee of the universality of the jurisdiction of the Judicial Branch and created unprecedented mechanisms for solving these problems, all of which were highly complex. All this, combined with the lifting of political restrictions, has caused an outburst of real enthusiasm for the discovery of justice in citizenship. This expectation was conspicuous, in some episodes, in the enthusiastic seeking out of judges by citizens belonging to those social segments that had never before dared to seek justice. This expectation would have been condemned to frustration had it not been for the special courts. It is a question, as I have said, of measures that are in the process of being implemented. This system will be extended to lawsuits brought by the Federal Government and its entities and companies. In addition to providing relief for the problem of the so-called pent-up litigation, they relieve congested lower courts and do not contribute to the existing congestion at the higher courts, including the Supreme Court.

The other measure being contemplated is the institution of binding effects of abstracts announced by the Supreme Court. This expression means, for those who are not familiar with legal cases, that every time the Supreme Court, or one of the Higher Courts, hands down a ruling on an issue, interprets a Brazilian law, a new law, in the light of the constitution, this interpreta-

tion is binding on the judges of all lower courts and not just on the judges but on all of the government's administrative entities. The application of this doctrine is the object of a constitutional amendment that is at present going through urgent appraisal by Congress. It is expected to lessen congestion, not just in the Supreme Court, but in all the other entities of the Judicial Branch. To realize the scope of this amendment, it is enough to note that, at present, 88% of the 35,000 appeals that the Supreme Court reviews each year are related to matters on which the court has already ruled previously. If the rule of the binding effect of abstracts were in force, they would not come up again before the Supreme Court. In ordinary instances, and even more important, in the sphere of public administration, appeals of the same nature, would not be acceptable once the Supreme Court had made a decision on a given matter and this decision is binding on all judges and on the public administration. It is clear that once the Supreme Court has handed down its ruling there would be no opening, as I have said, for any demands, any pleas on the same subject, neither in that field, nor in the sphere of public administration, nor that of the Judicial Branch.

Considering this figure of 88% of repeated cases that the Supreme Court reviews every year, we have some idea of the effect of binding decisions on reducing the workload of the Judicial Branch, and, I repeat, not just on that of the Supreme Court but on that of the Judicial Branch as a whole. So, knowing that 88% of the 35,000 appeals coming before the Supreme Court are repeated appeals, then only 12% of the 35,000 would be left, which means that, mathematically at least, the number of appeals would drop to around

4,000. This would be an extraordinary advance in terms of improving the judicial system in Brazil. Many people will say that 4,000 appeals before the Supreme Court each year is still many more than the number dealt with in the United States, for example, where the Supreme Court handles fewer than 200 appeals. But, here we have the problem of repressed litiaiousness. Repressed litigiousness is a very interesting problem and it is one that deserves attention as well. Previously, the Supreme Court reviewed only those cases that it deemed appropriate to judge. As a result, many people who were bent on having their cases judged by the Supreme Court were frustrated in their efforts. And today, this applies not only to the Supreme Court but to the High Court of Justice, because the Supreme Court had decided that given cases did not merit its attention. This happens in the United States as well. So I do not think that we should go back to the so-called argument of relevance that blocks cases and does not allow them to be judged. I think that the Supreme Court will be able to examine 4,000 cases a year without undue difficulty.

As I said, the effect of binding decisions is the subject of a constitutional amendment that should, we hope, be approved in the next few days. We never know what will happen in the National Congress, but the interest that the subject has aroused leads us to believe that the solution will be provided shortly and, from now on, we can expect to see a dramatic fall in the number of appeals. I shall confine myself to mentioning these two instruments to which we are giving great emphasis, because they really are very important instruments. This does not mean that there are no other matters being considered in terms of finding a solution to the problem of the Judicial Branch.

Another question arousing heated debate is in respect of the need – or not – to submit the judicial branch to some kind of external control. The Judicial Branch in Brazil constitutes one of the three branches of government. As a result, it enjoys independence, although it is subject to a system of characteristic checks and balances inherited from the American system.

The checks and balances, in summary, consist of the following: the President of the Republic appoints the members of the high courts following approval by the Senate, which may reject the candidates. The Justices of the Supreme Court are subject to impeachment by the Senate. The appointment of judges is conditional on approval in an examination conducted with the participation of the Brazilian Bar Association. All decisions are public and justified. Representatives of the lawyers and the pubic prosecutor's office fill up one fifth of the courts. Financial management is subject to inspection by the Audit Court. Notwithstanding all these control provisions, the Judicial Branch is accused of certain disreputable practices, such as nepotism, the awarding of excessive and undue financial advantages etc. that have lent support to the idea of establishing external control, which however, is contrary to the provisions of the Brazilian Constitution itself.

The Brazilian Constitution ordains the independence of the three branches, and does not admit the control of the Judicial Branches by one of the other branches. Therefore, we are leaning toward the institution of a controlling entity within the judicial system itself, but with the participation, as in other entities, of attorneys from the public prosecutor's office. This entity would have the specific power to formulate the Judicial Branch's policies and to plan its activities. It would

have the competency to exercise senior management and to undertake disciplinary action against judges. We are absolutely certain that an entity charged specifically with these tasks will provide the solution to the problem. In summary, it will be an entity that will take on a great part of the administrative autonomy of the courts. The courts will lose some administrative autonomy to an entity of this nature, and since there will be just one such entity it will impose uniform solutions for all courts, including the Supreme Court itself. It will thus sweep aside, once and for all, the casuistry that prevails in this field and that has contributed so much to the disrepute of the Judicial Branch.

The constitutional amendment contains provisions for the punishment of a negligent judge, as well as of serious faults that undermine the credibility of the Judicial Branch. It prohibits exchanges, transfers on request, and promotion of and access to the court of a judge that exceeds the legal limits for the retention of legal records. Under the present system, this is not possible, but through reducing the number of cases, it will be possible to penalize a negligent judge, or, in accordance with checking or performance appraisals, one who habitually fails to keep to case schedules.

Now a brief word on electoral law. A program for the introduction of an electronic system of collecting and counting votes is being prepared, concurrent to the implementation of the reform of the Judicial Branch. Elections in Brazil take place every two years and involve no fewer than 105 million voters. With so many people involved, there were frequent claims of manipulation of the votes in the counting process and the electoral Judicial Branch, seeking to eliminate such ills, has introduced, in the first instance, an electronic

database of voters. This is the most complete and accurate register in Brazil and there are constant requests from other administrative bodies for access to this register, but the law prohibits such access. Thirty-three percent of the electorate used the electronic voting system in the municipal elections. The system covered all the state capitals and towns with more than 200,000 inhabitants. The excellent results enthralled the whole country and it is now a concrete goal to extend the computerized system to 100% of the voters. The observation that none of the electronic polling booths gave rise to any appeals for a recount justifies such enthusiasm. This result is more telling when we observe that, in São Paulo where around 7 million voters used the system, the results produced no sort of challenge, an unimaginable situation under the old system of canvas ballot bags. The target for the 1998 elections is 50% of all voters, spread over no less than 250 municipalities. It will be the second step along the path to 100% of the voters in a period of time corresponding to just two new general elections, at the end of which Brazil will be world leader in computerized voting. A new tender is already underway for the acquisition of 160,000 voting machines. This measure is one of the most decisive factors in consolidating democracy in Brazil, sweeping the political arena clean of the allegations of fraud that so often shake the credibility of election results, and even of democracy, before world public opinion.

And finally, I still have a few words to say on Mercosur. It seems reasonable to expect that the business community is interested in information on the solution to conflicts of interest within Mercosur. The speed with which Mercosur is being set up- and the Chief Justice of the Argentine Court said this - has as-

tonished Brazilian, Argentine, Uruguayan and Paraguayan jurists. We are observing initial difficulties regarding the construction of a system for resolving disputes in the midst of a political culture that has little sympathy for international public law.

The political option that determined the establishment of Mercosur as an intergovernmental institution - and not supranational - with a functional structure of great simplicity and straightforwardness, without even its own functional staff, has had the consequence of an equally simple concept of a disputeresolving system. The efficiency of the system has not yet been put to test. When the Chief Justices of the Supreme Courts of the Southern Cone countries met for the first time in August 1991, in Buenos Aires, they drafted recommendations that a complement to the Treaty of Asuncion should auarantee judicial soundness and the uniform application of community law through an independent court. This means that the law to be applied in resolving disputes would be community law and not international public law. Thus, a member state that feels agarieved because another member state has failed to fulfill its treaty obligations can have no recourse to the usual mechanisms in the field of international law, such as retaliation by falling to fulfill its own obligations. The only approach is to demand the specific performance of the treaty by legal means. This is what happens in the European Union, whose court assesses and rules on cases of violation of the treaty, declarations of nullity, appeals for omission, as well as others.

The Treaty of Asuncion sets forth a permanent system for resolving disputes in Mercosur, to be adopted before the end of the transitional period. So far, however, the Brasilia protocol remains in force. This

provides for the resolution of disputes by an ad hoc arbitration tribunal. But this mechanism will be reviewed pursuant to the Ouro Preto protocol, even before the conclusion of the process of the convergence of the common external tariff, with a view to adopting the permanent system required under the Treaty of Asuncion. In the first phase it will consist of direct negotiation; in the second phase, it will include the intervention of the community authorities, the common market group; and, finally, through the ad hoc arbitration procedure. The project for the time being discards the use of a permanent court, notes Jorge Luís Fontoura Nogueira, a specialist on the subject. It cannot be expected, according to specialists, that the dispute-solving system will follow the example of the European Union court, since the differences between the two economic blocks are very great. According to the opinion of another specialist, the greatest difference lies in the current institutional structure of Mercosur and in the lack of an independent entity, since all the other decisionmaking bodies are intergovernmental in nature. This prevents the adoption of the system of lawsuits used by the Luxembourg court, which requires the participation of an autonomous body, such as the Brussels Commission.

That is why it is difficult to imagine in Mercosur that a member country would bring a lawsuit against a violator of community law, since the decisions of all entities are made by consensus among all member countries. At the same time, there is no need for a member country to defend itself against an unwelcome decision by community entities by filing a lawsuit, because it can prevent such a decision in the first place with its own vote. Thus conflicts between mem-

ber countries or between Mercosur institutions will be resolved at a political level – that is to say, that final phase of implementation. It is clear, as was said earlier, that at some time, an entity will be created to which all the states will be subject. Then, it will be the moment for Brazil and the other countries, as Argentina has already done, to alter their constitutions to allow the member countries of Mercosur to submit to decisions of a court, which, although it is part of the community, is nonetheless foreign.

Ilmar Galvão, Justice of the Federal Supreme Court of Brazil and current Chief Justice of the Higher Electoral Court, is a former officer of Banco do Brasil (Bank of Brazil) where he started working in 1955. In 1967, he began his law career as Federal Judge of the state of Acre's District Court, after having been engaged in different activities such as Chairman of the Bank of the State of Acre and Dean of the Federal University of Acre's Law School, which he founded. Assigned to the 2nd Jurisdiction of Brasilia's District Court in 1979, Mr. Galvão was promoted to the former Federal Court of Appeals (1985). In 1989, he became Justice of the Federal Court of Appeals and left in 1991 to become Justice of the Federal Supreme Court of Brazil. Mr. Galvão is also a faculty member of the University of Brasilia's Law School.

Sergio Cragnotti

President, Bombril e CIRIO S.p.A. - Italy

"Agribusiness in Brazil"

My name is Sergio Cragnotti and I am president of the Bombril-Cirio group, a company that has been operating in Brazil for several years. I was very pleased that my friend Garnero invited me to take part in this forum dedicated to Brazil, a country with which I have had a long association. I began my acquaintance with Brazil in the 70's and I lived there for more than 15 years. From that time until today, first as an executive and then as a businessman, I have always considered that part of the world as a reference point in the development strategy of a company. There is in Brazil a very strong connection between the 70's and the late 90's. At that time, the possibilities for developing investments were enormous - it was the period of the so-called economic miracle. The great buildings in São Paulo were built at that time, as a symbol of Brazil's greatness. The offices of the largest multinational groups from all over the world are housed in these buildings. The business context today is, however, very different from that time.

We could define the end of the 70's up to the recent past, as a period of instability during which Brazil was seen as a region for speculative, high-risk and short-term investment. Only a few groups were able, in spite of the difficulties, to stick to a strategy of remaining and investing in the long term. Preparing a development strategy in Brazil today is different. It is no coincidence that a recent World Bank study singled out Brazil as one of the five major economies in the world in the years to come. In a commentary on the World Bank study, one Italian newspaper said: "Those five countries have changed the world." I am certain that the new geographical map of the world's economies in 10 or 15 years time will be the result of what is being done in those countries now at the end of the century. There is no group in the world, particularly no European one, that has not placed these countries among its strategic priorities to invest and grow in the new emerging markets. For these groups it is the only way of bolstering

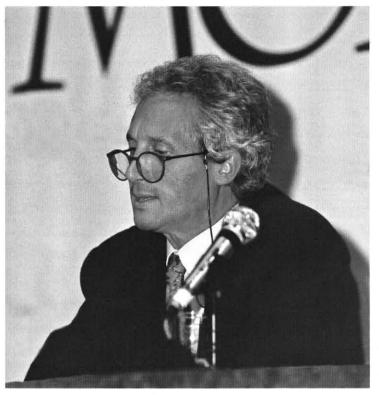
their prospects, which otherwise, if confined to the Old World, now a mature market, would merely represent a consolidation of existing business.

I would like to move on now to the specific subject of this talk, namely, the food products sector, which in my opinion is one of the priority sectors in terms of the attractiveness of investing in Brazil. It is in this sector that our group, Bombril-Cirio, has decided to invest, as a strategic priority, around US\$ 300 million in the three years from 1997 to 1999. The Brazilian agricultural and food products system has enormous potential and its strong points are: increased purchasing power of the lower-income segment of the population, enormous agricultural potential, an industrial system undergoing profound change, a modern and continually growing distribution system, and stable growth of consumption in various markets. Two factors have revolutionized the Brazilian food products industry

in the 90's: first, the opening up of the economy to international competition - with the elimination of most of the tariff barriers and the progressive integration of Mercosur. Second was the introduction of the Real Plan which lifted all price controls and consolidated a market economy. I believe the effects of the Real Plan are unprecedented. A new class of people, 30 to 40 million strong, now has access to mass consumer goods, which has resulted in a consumption boom. This new class of emerging consumers is made up especially of urban wage earners who, following the Real Plan, have seen their real purchasing power rise by around 30% thanks to the elimination of the inflation that previously eroded their earnings, in particular the earnings of the lower-income segment. Inflation, Brazil's chronic disease, which had come to 2,400% in 1994, fell dramatically and, in the first half of 1997, was a mere 4.8%. Another effect of the Real Plan and of the opening up of the economy was the drop in the price of many food products.

Another important factor in the diet of the poorest segments of the population was the rise in protein consumption at the expense of carbohydrates. In the last three years for example, milk consumption has risen by 20% while the consumption of rice and beans, the old staple diet, has fallen by around 4%. The

combined effect of falling prices, the control of inflation, the rise in disposable incomes has resulted in a substantial increase in the consumption of both durable and non-durable consumer products. Initially, the new consumers bought food products such as yogurt, biscuits, chocolate, etc., to which they had not previously enjoyed access. Then they began to buy electronic products



and domestic appliances. Eight million television sets were sold in 1996 alone. In this period, the sales of electronic products and domestic appliances have doubled and, in some cases, the rise has been even higher. Sales of CD-players for example, rose by 550%, and remote control television sets by 158%. Practically all food products have benefited from the Real Plan's consumption boom. This has applied both to basic popular products and to more sophisticated higher added-value products. It is enough to point out that from January 1994 to September 1996 sales volumes of food products in supermarkets rose by 86%. In the same period, the sales of some products have grown by three-digit percentages, including yogurt, cream, flavored milk, juices, fruits, cereals, etc.

The greater the disposable incomes, the greater the number of products available on the market, and changes in life style are reflected in the consumption of food products. In the towns, the consumption of fast food has expanded. Estimates are that seven million fast food meals are served in Brazil every day by approximately one hundred specialized catering companies. Millions of meals outside the home are eaten daily, especially in the large towns, in bars, in delicatessens, in modern fast food and traditional restaurants. The new eating habits explain the impressive increase in the sales of the fast food chains and the extensive shelf space provided by supermarkets for snacks and ready-to-eat food. Economic stability and the expansion of consumption have also influenced the distribution of consumer goods. This has undergone sweeping changes, and today, it is well organized, highly efficient and continually developing. The large modern supermarket chains nowadays account for 75%

of food sales. Several supermarket chains are foreignowned, such as for example, Carrefour and Makro – and many of them are ranked among the best companies in the country in terms of sales. The five biggest sell US\$ 11 billion at around 400 points-of-sale. The sector continues to grow and the American giant Wal-Mart, the Dutch company Eold and the Portuguese Sonae have recently entered the market. Today we can find the widest range of products on the supermarket shelves. Many of such products are imported.

The food products industry is operating, therefore, against a backdrop of continuing growth of consumption and distribution. The way the products are produced is also going through change and restructuring, a phase of constant modernization aimed at achieving international competitiveness levels. Foreign companies coming into the country – either through joint ventures or acquisitions – are playing an important role in the modernization process. They are bringing fresh capital, new technology and the most modern selling and marketing techniques.

The presence of foreign investors in the Brazilian market is not recent; some multinationals have been operating successfully in Brazil for decades. In the last two years, nonetheless, we have seen a rapid expansion of mergers and acquisitions. The preference of foreign investors for the food products industry is justified by the dynamism of the domestic market and by the prospect of future development, specially in the Mercosur countries – Brazil, Argentina, Uruguay and Paraguay – to which Chile and Bolivia will shortly be added. Among the large companies present in the food products market, the major multinational groups are conspicuous because of the strategic importance of

the country and as a result of the process of globalization. A significant indicator of the dynamism of the sector is the increase in sales from US\$ 46 billion in 1993 to US\$ 56.9 billion in 1996, or 40%. Besides this, the growth rate in the food sector this year has been higher than that of other sectors of the economy. The best performance of the last decade has been that of milk and dairy products, going from US\$ 2.8 billion in 1985 to US\$ 9.3 billion in 1996. Dairy products have grown faster than coffee, tea or cereals to become the biggest sector in the Brazilian food products industry. Sales figures for the fruit and vegetable processing sector came to approximately US\$ 4.8 billion, and oils and fats sold US\$ 6.6 billion. The Brazilian food products industry today is made up of 38,000 companies employing around 775,000 people. This number increases threefold if we take into account indirect employment in the packaging and raw material sectors. It is the country's largest industry in terms of the number of companies and is second only to the petrochemical industry in terms of the value of production. The importance of this sector takes on even greater significance when we compare it with the Brazilian car industry, which produces only half the value and less than a third of the exports of the food products sector. It is estimated that the food industry's sales will increase up to the year 2000 by at least 4 - 5% a year, in line with the forecast growth of GDP.

The number of Brazilians with sufficient purchasing power to form part of the mass consumer goods market will be even greater next year, both in the big towns and elsewhere in the country. At the same time, demand for higher quality and innovative products and convenience products will increase. The market will become even more modern and competitive, and companies that are able to meet this new challenge

will have one of the most promising food markets in the world to operate in. The medium to long-term prospects are enormous, not just because of the development and consolidation of the strong domestic market, but also because of the great potential of Brazilian agriculture.

The Bombril-Cirio group is present in the food products industry in particular in the dairy products and canned goods sectors. The Cirio brand is known worldwide as a canned tomato product brand. It is a historic brand at the quality end of the Italian food products market. Today our group, within the scope of its projects for growth and internationalization has chosen Brazil as a strategic area for its investments outside Europe. The Bombril-Cirio group has undertaken a development project in the agricultural and food sector in Brazil based on a philosophy that has always been a characteristic of its business, namely, that of operating in the raw material processing sector on the basis of a strong relationship of mutual collaboration and support with the agricultural domain. The development of the food products sector and of farming goes hand in hand. The quality of the finished product depends on the quality of the raw material. This quality must meet the requirements of the industry to the benefit of the end consumer. At a time when Brazil is increasingly changing from being a producing and raw material exporting country to being an industrial country, we must pay attention to the development of an important sector like the food products industry, as well as to the development and proficiency of its agriculture.

This link between industry and farming is, at the same time, fundamental if we do not wish to witness an even greater degree of abandon of the countryside in favor of unbridled urbanization, putting the eco-

nomic and social balance of the country at risk. I believe that we have a responsibility in this process. Our project is not just an industrial project. It is also a project aimed at the farming sector, to which our group will offer the support of all its available knowledge in the field of agronomy. This is the result of years of research and work carried out with the farming industry in Europe, North America and the countries of Eastern Europe. The project in Brazil will allow our industry to develop and will let the farmers associated with our production achieve high quality products, at lower production costs, thus increasing their productivity and profitability.

To conclude, I would like to emphasize that Brazilian agribusiness is, undoubtedly, a source of wealth to be valued, both in the domestic market and in international trade.

Sergio Cragnotti was born in Rome on January 9, 1940. He has a degree in Economics and Commercial Relations from the University of Rome.

In the course of his professional career, Cragnotti worked as director and manager of big business groups in Europe and Latin America, especially in Brazil. His work provided him with first-hand experience and knowledge of international markets.

Sergio Cragnotti began his professional activities in Brazil in 1970, when he headed the cement division of Italy's Bombrini Parodi Delfino/BDP, a big group operating in Italy and abroad. The group's cement divi-

sion was later acquired by the Feruzzi Group, which then appointed Cragnotti director of Feruzzi's operations in Brazil. Under Cragnotti's management, the group's sales income rose from US\$ 60 million to US\$ 200 million, especially because of its involvement in agribusiness and farming commodities.

In 1980, Cragnotti was transferred to France, where he headed Grupo Feruzzi's operations. In 1986, he was appointed executive vice-president of Feruzzi Agrícola Financeira.

Cragnotti then went on to become vicepresident of Italy's Grupo Montedison (1988) and Enimont
(1989). In 1991, he founded Cragnotti & Partners Capital Investment, a holding company whose core business was financial brokerage. That year, Cragnotti acquired ownership interest in Sociedade Bombril S.A. At
the time, cost reduction and productivity gain measures
were implemented at the company. Technological updating, professional training for the sales team, investments in advertising and promotions, concern over environmental issues and work safety were also focused
on.

Cesare Romiti

President, Fiat S.p.A. - Italy

"The Automotive Industry and Globalization"

I feel greatly honored to take part in this seminar and to express my point of view about the globalization of the automotive industry, and in particular about its development prospects in Mercosur. I actually feel apt to discuss this, considering my direct and long-standing experience in the field. In fact Fiat was one of the first European automotive companies to believe in the vast potentialities of the South American automobile market and to dare invest there, in spite of the fact that investing there did not appear as opportune then as it does today.

We have had plants in Argentina for forty years, and in Brazil for twenty-five. We have been operating in both these countries with all our groups of automotive sectors- automobile, trucks, tractors, and agricultural machinery- all flanked by their respective components, production systems, and metallurgical products. At present, 50% of our sales and employees are concentrated in South America. But once more, a

quarter of the production of Fiat is sold abroad.

I can not deny that we have had some bad moments in these years. Between the late seventies and the eighties, the political and economic situation in Latin America not only discouraged new foreign investments, but also penalized the ones already in place. We had already lived with the massive inflation that concluded the last decade, when government action was taken to stabilize exchange rates, check inflation, liberalize economies, and create a free trade zone based on the two major countries of South America.

Keeping in mind this development, as well as the tremendous market potentialities, Fiat is committed to strengthening its industrial presence in the continent even more. In Brazil, last year, Fiat Auto launched its first world car, which today is also performing well in Argentina and in Poland. In the commercial vehicle field, Iveco, under its program of production

expansion, is aiming by the year 2000 to produce its entire range. In Holland, it is being given a new momentum to its activities in the agricultural machinery sector, where it already enjoys a leading position as a producer and exporter. All this has meant a considerable financial commitment for us. We allocated investments amounting to one thousand six hundred million dollars to the world car project. In the next three years, the same amount will be used for developing and starting new initiatives. These figures should give you an idea of the determination with which Fiat has been working in order to make Mercosur one of its most important industrial centers outside Europe.

Like all the leading world companies, we are convinced that a considerable industrial and commercial presence abroad is no longer an option but a necessity. There are essentially two factors driving the globalization of the automotive industry. The first is the quest for new markets. We have to keep in mind that the demand for automotive products in the more traditional markets like Europe, the United States, and Japan is clearly characterized by rather limited growth rates. On the other hand, with the geographic differentiated presence, it is possible to offset demand drops from one area to another. This is clearly a crucial point in a sector which is as strongly cyclical as the automotive sector. The second factor is cost. Costs are a determining variable for any company. The more world competition increases, the more important it is becoming to compete also as regards costs. Globalization offers many opportunities of increasing a company's efficiency. For example, it is possible to allocate production to countries with lower costs, of course with the same productivity level, not only in terms of wage levels but also as regards welfare costs and constraints imposed by rigid labor markets. But globalization also helps to spread out research and development costs, which have reached extremely high levels, based on a vaster production volume. However, globalization is a process not without pitfalls. There are those connected with the complexity of organizational, logistic, and also financial challenges related to the management of the production, supplying and distribution systems at a world-wide level. And then it has to be decided where to invest. Globalizing does not mean going everywhere. On the contrary, it means very carefully selecting the areas and the markets to concentrate on.

Our choice has fallen on the markets with the highest growth potential: Latin America, Eastern Europe, and Asia. Obviously we continue considering Western Europe as our domestic market. In evaluating investment opportunities, the economic prospects of a country and of the area it is situated in are obviously of primary importance. But we must keep in mind the risks the country presents as far as political and economic stability are concerned, incentives offered for new industrial ventures, accessibility to sources of international and local financing, professional qualities of human resources and of course return on investment and profit.

In general, we are aiming to directly run the production system and the commercial network to assure our customer of a quality level aligned with the highest international standards. Moreover, each of our production lines is oriented to export as well as to close synergy with the Fiat industrial network in the world. Our plans for the future promise a strong local content. Each investment plan, therefore, envis-

ages a growing involvement of the local suppliers and this forces us to make an effort to bring them to the level of world-class suppliers. In this regard, we feel obliged that we should establish strong ties with our foreign as well as Italian suppliers. In any case, what we intend to accomplish in the world are modern industrial structures for technology, organization, and type of product. I wanted to emphasize that this strategy has helped us reap some very significant results.

Last year, the Fiat group achieved 40% of its production out of Italy. This was more than double the figure for 1990. About 23% of our sales were recorded outside Europe, two and a half times more than at the beginning of this decade. On extra-European markets, we are selling an average of almost four cars, five trucks and seven agricultural tractors out of ten. Outside Italy, we have over ninety thousand employees which is almost forty percent of the total number. It is therefore within this scenario that we must set our choice to make Mercosur the take-off point for our global development. We are fully aware that we will have to face a competition which is also strongly oriented towards the conquest of new market outlets.

From 1992 to 1995 about 15% of the foreign direct investments which arrived in Brazil and Argentina were aimed at the automotive sector. According to some forecasts, from now until the year 2000, the most important car makers in the world will concentrate their investments, amounting to over ten billion dollars, in Mercosur, which means more or less half of the total investments which they will make in other than traditional domestic market. These figures clearly show how strong Mercosur's power of attraction is. But the deep opportunities that this large, integrated, re-

gional area promises are not only connected to companies. They also concern, in a more general way, the development prospects of the entire South American economy. Of all the industrial sectors, the automotive sector is in fact one of the most extraordinary multipliers of growth in terms of added value, employment, experimentation and distribution of the most advanced technology to the rest of the production system, to education and to the growth of the people's professional capacities.

Because of its capacity
to generate development in the industrial system as a
whole, the automotive sector remains
strategic for all
economies, and
therefore, also for
those of the South



American countries. Obviously, as with all opportunities, growth of a strong, sturdy industrial fabric in Mercosur will be accompanied by a number of challenges. This concerns single countries that are expected to complete the process of economic restoration and to create favorable conditions for an adequate formation of internal savings which is fundamental for financing development. Other challenges are connected with the continuation of the process of regional integration.

Without doubt, Mercosur will be able to reap a lot of benefits from a better coordination of economic policies, from the harmonization of the different kinds of labor legislation, from the adoption of common

rules about competition and from the creation of adequate infra-structures linking up different member states. I am convinced that as soon as a positive answer to this problem is found, the entire region, starting from its principal countries, will be able to take on a role which is more and more that of a leading player in the growth of the world economy.

gion d'Honneur", Doctor Honoris Causa from the Pontificia Universidade Católica de Belo Horizonte (Brazil), Manager Award from the World Management Council of New York, and the Lifetime Achievement Award in Business granted by the Italian-American Society. "Il Mondo" magazine named Mr. Romiti "Manager of the Year" in 1982.

Cesare Romiti is the Chairman of the Board of Directors of FIAT S.p.A. He was born in Rome on June

nomics and Commercial Science.

In 1947 he joined the BDP Group (Bombrini, Parodi, Delfino) and became General Manager a few years later. He played a crucial role in the merger of BPD with Snia Viscosa in 1956.

24, 1923. In 1945 he got his Doctorate Degree in Eco-

In January 1970 he joined the Board of Directors of Alitalia as Managing Director and General Manager. In September 1973 he was appointed Managing Director of Italstat, the finance company of the IRI Group. On November 1st 1974 he jointed FIAT as Head of Finance, Planning and Control. He also became a member of the Executive Committee. On April 30, 1976 he joined the Board of Directors and was appointed Managing Director. On February 28 1996 he was appointed President of FIAT S.p.A.

Mr. Romiti has been awarded a number of honors such as Cavaliere del Lavoro, officer of the "Le-

Mr. Romiti is a member of the Confederation of the Italian Industry.



Eliseu Lemos Padilha

Minister of State for Transports - Brazil

"The Brazilian Privatization Programs for Railroads, Highways and Ports"

As Minister of Transportation, it is naturally up to me to cover the field of transportation. Nonetheless I would like to set out a scenario according to which we can understand the present Brazilian government's position and philosophy for the transportation sector. This is especially so with regard to the participation we have successfully sought from both national and international private enterprise, through privatization, concession granting and leasing.

I shall dwell on a few points that I believe are important to define the basic features of the scenario I am referring to. I think immediately in international terms, in globalization. Economic globalization obliges us all, at the present time, to rationalize costs and seek competitiveness for our products, whatever it takes. When McLuhan, in the 60's, originally spoke about globalization in the process of communication, we did not fully understand what the professor was talking

about. Some time later, we saw that voices and images from any part of the world could be captured and followed by individual or collective receivers in our homes, in the car or at our workplaces. Today, when we speak of globalization, we are obviously thinking about the significance of the Nation-State, what effectively are the effects and the meanings that will derive from the idea of economic blocks, and what things will be like in the not so distant tomorrow in the global village - not McLuhan's - but today's global village in the economic field. With globalization we are undoubtedly, in terms of economic matters, heading in the direction that McLuhan indicated in the 60's with regard to the communication process. So, given that the international context is ruled by globalization, what should our attitude be. In regard to the Brazilian domestic scenario, let us look at the factors that formed the basis, in broad terms, of the Brazilian government's position.

Initially, there was political stability, unquestionable today, which we must look at in terms of Brazil within South America, in Latin America. Then came economic stability. A short time ago I saw a reference to Brazil's inflation rates. In the current quarter, cumulative inflation in Brazil will be less than 1%. When the Real Plan was launched, inflation was running at 70% a month. Today, inflation is recorded at less than 1% a quarter. We must also keep in mind the redefinition of the role and design of the Brazilian state being shaped by the current legislature, in the National Congress, a process that had already begun at the time of the previous legislature.

When speaking of the redefinition of the role and shape of the Brazilian state it is important to emphasize the end of monopolies, the redefinition of the concept of a national company, privatization and/or the decentralization of activities that were originally the responsibility of the Federal Government and the Ministry of Transportation. We must refer to the distortions and the predominance among the various modes of transportation in Brazil. First we must remember the network of waterways. Brazil has 42,000 km of waterways. Of these, 27,000 km are naturally navigable and 15,000 km are potentially navigable. In Brazil only 2% of the country's entire freight is shipped through the river system. Historically, soon after the rivers had served as the basis for the conquest of Brazil's territory - especially the Amazon River and the Paraguay River, starting from the Uruguay River and then moving up to the Paraguay, we dominated a huge area of land, but we forgot how to navigate the rivers when we undertook economic activity in the small towns and villages that sprang up along the banks of the rivers.

We moved inland through the railroads which had become a vital means of transportation at the end of the last century. Yet in 1995, our railroads were practically abandoned and had turned into scrap iron. The highways in Brazil became more important from the 50's onwards and developed naturally with the advent of the automobile industry. Railroads today account for only 21% of the transportation system. Later we shall refer to some projections, since the federal railroad network is now privatized. Highways now account for 58 to 60% of the transportation network and the waterways for only 2%. Although the pipeline network does not come under the Ministry of Transportation, it is worth noting that it already accounts for 3% of the country's transportation - this is a significant figure if we consider it alongside the river network - but it is still a minor one in terms of its potential in Brazil. Air transportation, which comes under the Aeronautics Ministry, has a very small share of freight traffic, less than 1%, but it can be used as a reference point. So, transportation in Brazil is divided into waterways - 10%; coastal shipping -15%; railroads - 21%; and road transportation - nearly 60%. When we look at examples of developing countries with land areas similar to that of Brazil, and river systems of a similar size, we see that they account for approximately 1/3 of the transportation volume.

We must also mention the distortion in the ports, before coming to what the national transportation policy should be. Brazil has made no consistent investment in its ports since the 1950s, and created a series of monopolies, consistent with the mentality and philosophy of that time. These monopolies favored certain sectors, but caused Brazil to progressively lose its share of port operations. As a result, we have suf-

fered significant losses in the international services account, which amounted to a deficit of around R\$ 6 billion in 1996. These are premises that form the basis of what will come to be, and I now state it here, the effective national transportation policy of the Fernando Henrique Cardoso government.

Within this scenario, we can establish the premises which today's transportation policies and philosophy in Brazil are based on. First is the integration of the various modes of transportation rail, road, river with the objective of correcting the distortions that exist today when compared to other countries. One obvious distortion is the engineering of the costs. Today, we no longer view Brazil in terms of the isolated model.

Last week I was in Rio de Janeiro speaking to the Brazilian Association of Exporters, and more than 90% of the audience a significant number of around 200 businessmen were in the transportation and distribution business. We must always keep in mind the significance that the issue of transportation is beginning to have in terms of the so-called Brazil cost. So first comes the integration of the different types of transportation. Then comes territorial integration; Brazil, as we all know, is the size of a continent, and when we think of transportation we must not lose sight of territorial integration. As a result of this, the Fernando Henrique Cardoso government has created a program called Brazil in Action, which, in fact, is a set of 42 projects whose objective is to integrate the entire Brazilian territory and shift the social and economic development of the country.

Of the 42 projects in the transportation field, 14 projects are expected to require investments

of ground US\$ 9.1 billion in 1997 and 1998, of which more than half will go for the highway system. Included in this program, for example, are two major highway projects. One will run from Manaus, the capital of the state of Amazonas, to Venezuela, taking the Port of Manaus and the Amazon river system to Central America; the other will start at Santarém, in the state of Pará, also in the Amazon region where there is also a railroad, thus forming the river, road, and rail link , and go to Cuiabá in the state of Mato Grosso. From Cuiabá it will continue to Porto Velho and Rio Branco, and then on to the border with Peru. Thus we will achieve territorial integration as well, through the Brazil in Action program. This program includes the Mercosur highway, which starts in Belo Horizonte, the capital of the state of Minas Gerais, and by the year 2001 will run all the way to Porto Alegre, the capital of the state of Rio Grande do Sul. Thence it will continue on to Uruguay and Argentina, thus forming a broad Mercosur highway corridor. The investment required for this project alone is around US\$ 3.4 billion.

So these first results of territorial integration and those provided by the integration of the different types of transportation give a clear idea of the Brazilian government's goals with regard to transportation. The first goal is to build a transportation network that provides security, comfort and economy. Second is to turn the Brazilian state, which today is a provider, into a regulating state, which will have a regulating entity for the transportation sector, as it does for energy infrastructure and communications infrastructure. The ultimate objective then is to establish the relationship between society and these service providers, who will be given the right, by the state, to serve society, either through the granting of a concession or through leasing. Third is

the reduction of the Brazil cost, because we think in terms of globalization and the integration of the Brazilian economy on equal terms or at least competitively in the world market.

Let us take a look at what Brazil represents when closely compared to Latin America. In terms of territory, Brazil - with 8.5 million square kilometers - is approximately equivalent to half of Latin America. In some regions, the sun shines practically the whole year round, and the climate favors production. The population today is around 160 million, equivalent to half of Latin America's population, GDP is US\$ 753 billion, Per capita income is US\$ 4,800, while in Latin American as a whole it is US\$ 3,400; and Brazil's foreign trade is US\$ 100 billion compared with all of Latin America's US\$ 213 billion. Although we have quite a high GDP, we cannot say that our foreign trade enjoys a corresponding performance. Brazilian GDP grew by 3.8% a year over the last three years, its foreign currency reserves stand at US\$ 62 billion and Brazil's annual inflation in 1997 is estimated to be 5.5%. Economic factors that justify our position include: inflation kept at bay, an economy open to the outside world, the redefinition of national companies, the redefinition of the participation of foreign and local capital in Brazil, a dynamic and entrepreneurial private sector, a clear fiscal balance policy, control of the trade balance and promising investment opportunities. The economy is stable, and this is undeniably a factor which adds confidence to investment decisions.

The main reasons for foreigners to invest in Brazil are, first, political and economic stability, which are fundamental factors. Second, is the re-establishment of the ability to plan; given that there is

political and economic stability it has now become possible to plan over a reasonable time span. Other reasons are macroeconomic adjustment, the opening up of trade and finance, reduction of import duties and opening up of sectors which were previously the exclusive province of local investors, a growing consumer market – thanks to the Real Plan, there are at least 30 million new consumers of various types of products, especially domestic utilities and consumer durables – and our national privatization program.

Our principal trading partners in 1997 are the United States, Germany, Italy, France, Britain, Switzerland, Japan and Sweden. Then there is the growing share of Spain, Portugal, Chile and South Korea. Foreign investments from 1991 to 1994 came to US\$ 1.3 billion; in 1995, US\$ 4.3 billion; in 1996, US\$ 9.9 billion; in 1997, US\$ 15 billion.

In terms of concession granting, we will grant concessions for sections of the federal highways. We are undertaking a pilot project which so far includes less than 1,000 km. Four highways and a bridge are included in this project. We have also leased the assets of the federal railroad network for the reasons I mentioned previously. The deteriorated state of the network, the practically non-existent investment capacity in the sector, together with the need for investments of around US\$ 5 billion in the short-term have all led the government to take the sound decision to hand over the running of the railroad service to private enterprise, while at the same time requiring given levels of investment and quality.

As for concessions for running the port services, we are conducting two different operations. The issue of ports in Brazil has undeniably been one of

the most outstanding aspects of our backwardness. It has kept us backward in relation to other countries. To-day, we have managed to come to the point where all of the Brazilian port operations will be privatized. By next June 30 - officially on the September 30, but my personal schedule is tighter - by June 30, we plan to lease the 36 port areas under federal jurisdiction out to the private sector. Thus we are engaged in two different operations; one is the leasing of the area and the other is the running of the port.

Concessions in regard to the highway sector comprise 856 km, which include the Rio-Niteroi bridge and the Presidente Dutra highway between Rio de Janeiro and São Paulo. This highway concession has increased the level of efficiency by 82%; on the other hand, accidents - most of them fatal - have increased by around 45%. When renegotiating the concession with the pertinent company, we came to the conclusion that we immediately need to invest another R\$ 120 million in the highways to contain this massacre. We are building pedestrian overpasses, central divisions on the highways, metal barriers to prevent people from crossing on foot and keep them from getting run over, and so we expect to reduce the risks. Then there are the concessions for the Rio - Teresópolis and Rio - Petrópolis highways, and in Rio Grande do Sul, for the express highway between Osório and Porto Alegre that takes the population of the metropolitan region to the coast. So here we have five highways and the concessionaires have agreed to invest US\$ 1.2 billion over five years.

We have a good idea of what we want to concede to the private sector. Of the 51,370 km of the Brazilian federal highway network, we want to hand over approximately 10,790 km. to private enterprise.

Five thousand kilometers will be conceded directly by the state agency subordinated to the Ministry of Transportation, the DNER – the National Highways and Roads Department, and 5,000 km will be conceded through the process of decentralization, by which we delegate concessions to the states. These delegated sections form part of the so-called state highway systems, which connect the state highways to the federal highways.

In the State of Rio Grande do Sul, for example, there are 10 state highway systems being put out to tender; federal highways were considered for delegation to Rio Grande do Sul so that this state could complete its concessions program. The federal section that was conceded was passed on together with the state highways, thus substantially expanding business opportunities. These are the highways that form part of the Mercosur corridor - and concessions will be granted for the following highways: the BR 381 that links Belo Horizonte with São Paulo and the BR 116 that links São Paulo with Curitiba. The BR 381 highway is still referred to as the killer highway but within a short time it will certainly be referred to as the joyful highway. And the reason is that the region's economy will be revived because the installation of the stretch of the 381 that runs through 12 state districts has already been already provided for. This stretch corresponds to over 450 km along the 381 running between Belo Horizonte and São Paulo. The same thing will certainly happen between São Paulo and Curitiba, perhaps with different numbers, but the philosophy is more or less the same, because this highway will be the great Mercosur corridor, the highway that will influence 80% of Mercosur's regional economy. There are two highways running from Curitiba to Florianopólis now up for concession: the 376 Highway which goes down the mountainside below Curitiba, and the 101 Highway that goes to Florianòpolis and then on to Osòrio in Rio Grande do Sul; the BR 290 Highway, running from Osòrio to Porto Alegre, has already been subject to concession, and this completes the connection between Belo Horizonte and Porto Alegre in Rio Grande do Sul and the Mercosur highway. These stretches will all come up for concession. We are already preparing the Bidding Instructions for the first concession, the 381 Highway between Belo Horizonte to São Paulo. The remaining highways will also be conceded to private enterprise, according to the planned schedule.

Let us look at the program schedule, how we are going to complete the various stages and make the map a little clearer: Belo Horizonte - São Paulo, São Paulo - Curitiba - Florianopolis, Florianopolis - Osorio, Osòrio - Porto Alegre, and from Porto Alegre today we have six possible exit routes involving Uruguay and Argentina. A tripartite group is currently studying the question and will define between Brazil, Argentina or Uruguay where the path of what we are calling the Mercosur corridor will lie. There is the question of cost and this is important because in these costs we must think of the highway concessionaires. The Brazilian State has borrowed money from the IDB and the Eximbank, and at the time of transferring the concession we shall also transfer the highway costs equation including the financing cost, both in terms of interest and repayment. With this the Brazilian State, which only appeared at the time of taking the loan, passes on not just the responsibility for the conservation and complementary works, but the responsibility vis-à-vis foreign lenders.

What is the philosophy, how are high-

way concessions granted in Brazil? How does it affect the maintenance, comfort and safety for highway users. maintenance of the highway's environmental quality, proposals for environmental quality? Mayor Celso Pitta, who was here yesterday, may have spoken of the São Paulo ring road. This US\$ 2.8 billion project will result in an effective 170 km beltway around São Paulo while adhering to all the Brazilian environmental legislation. The environmental issue with regard to Brazillan highways, and waterways and railroads too, is a fundamental issue in the government's view. The construction of squares and tollbooths, the reinforcement and widening of existing bridges and viaducts, the creation of viewing points and rest areas, the implementation of a modern system of services to for the highway traveler, such as information panels giving traffic conditions on the highways, emergency telephones, first aid and car repair services. The concessionaire will bear the cost of the interest charges and will also have to repay the money we borrow. But the equation that has guided our concession process has offered a return of 15 to 17% a year on capital invested.

In the case of the railroads, the networks that have already been privatized were leased to the private sector when they were still operating in the red; they were running up losses. The report that I received in September last, in respect of the month of July, shows that the network is operating profitably, with the exception of the northeastern network, which was privatized only in July. This network had previously been taken to auction twice but there were no bidders. Then we began to work on the question of the ports and port modernization, since this railroad serves the port of Suape in Pernambuco, the port of Pessem and the port of Fortaleza in Ceará. The automobile industry's coastal shipping ser-

vice had begun, so we put the northeastern network up for sale again. This time, not only were there interested buyers but it was sold at a premium of 37.85%. This was the last network to be privatized, on July 27, 1997. We are raising US\$ 1.4 billion in these leasing operations and the investments, which are compulsory under the terms of the contract, amount to more than US\$ 4.1 billion. Of course the market, the demands of the market, have caused these numbers to evolve and there has already been more investment than we had projected, for example, in the early years. Brazil's railroad plan has already reduced accidents by 50% and increased its share of the overall transportation market. Projections are that within 4 years the railroads will command a share of more than 30%.

Still to be privatized is the most important network, which the federal government will be receiving from the State of São Paulo in settlement of debts. We are only at the stage of carrying out the evaluations. With 4,933 km strategically located in the State of São Paulo, FEPASA forms a link between the country's various networks, including Ferro-Norte. Ferro-Norte will transport grain production from the midwest, which today does not go through the port of Santos, it goes down by road to the port of Paranaguá. FEPASA is strategically the most important network in Brazil, and should be offered for leasing by the end of 1997 or beginning of 1998, pending its evaluation.

Now we come to a very important point, namely the question of metropolitan trains in Brazil. We have subway systems in the principal capitals, but we also have surface trains serving the same capitals. In Rio de Janeiro, for example, we have issued an Invitation to Bid for the auction of the Rio de Janeiro sub-

way system and international operators have already passed the pre-qualification stage, as was to be expected. In this case, there has been interest from the operators of the Paris and Buenos Aires subways. Undoubtedly, there will be other interested parties as time goes by. We have subway systems in São Paulo, Rio de Janeiro, Belo Horizonte, Recife, Salvador, and Fortaleza, all of which will hand the process over to the states, or have already done so, for them to conduct the tenders for the private sector.

In Rio Grande do Sul, in Porto Alegre, an engineering project is at present being prepared for a subway system for the metropolitan region. It has a target market of around 3 million people and in principle could transport from the word go around 700,000 people a day and within fifteen years around a million and half people a day.

In the ports sector, the federal government is transferring ports to the states ports under the jurisdiction of the federal government. A few days ago we held the auction for the container terminal at Santos, which has become a symbol of the port issue in Brazil. First the premium in the auction which 5 major international groups bid in association with local consortia was 171% for Latin America's largest container terminal at Santos, which could become one of the largest in the world when we put the second terminal, the TECON2 out to tender. This 171% figure not only represents international confidence in Brazilian port which for a long time was considered a production symbol of backwardness but also represents our ability to reduce the Brazil cost. The Bidding Instructions for the tender include the obligation on the part of whoever receives the terminal in operation, to reduce the cost of the port operation of a container to US\$ 150 within 24 months. The obvious question is what does it cost at Santos today? Between US\$ 500 and US\$ 600, and we are going to reduce it to US\$ 150 in 24 months. At that point, we shall unquestionably have market competition, there in the port of Santos itself or between the country's various other ports, and as a result, the port of Santos will set the operating standard for Brazil's ports at the levels I have mentioned.

Furtherance of the market economy, increase in private investment, either in the facilities or re-equipping of the port, and improvements in quality and the lowering of our costs. In addition, more than 180 leasing contracts have already been signed. The operation will be fully privatized by the end of 1997; and by September 1998. I hope it will be June we expect that all the port areas and installations under federal jurisdiction will be leased to private enterprise. In the next few years more than R\$ 2 billion should be invested in Brazilian ports.

The next leasings. Container terminals to be leased: Barra do Riacho, in Espírito Santo; Capuava, also in Vitòria; Sepetiba in Rio de Janeiro, a very important port that will compete with Santos; and Valongo in Santos; and Salvador, in Bahia, which is also a container terminal. Then we have bulk solids terminals, sugar terminals, fertilizer terminals. These are the principal ones, but obviously many other opportunities will arise in regard to the 37 ports..

In summary, I think that this has helped convey the idea that: First, in the highway sector, we are working with the idea of concessions and we shall concede 10,700 km to the private sector. In the railroad sector, we shall grant concessions for old federal

railroad network, with Fepasa Ferrovia Paulista S.A. still to come. This is strategically the most important network, serving more than 50% of Brazil GDP, that is to say, the State of São Paulo directly and it forms the connection with the other networks.

With regard to the ports, there are still great opportunities to take part and there are good sians that we shall have major participation. On the issue of the waterways, I think one or two words are important. Of the 42,000 navigable kilometers of our waterways, 4,000 are included in the Brazil in Action plan. and have been referred to recently nationally and internationally. There is the question of the Madeira River. for example. It is a 1,400 km waterway stretching from Porto Velho, in Rondônia, to Itaquatiara in Amazonas. The objective of this waterway, through the integration of the different modes of transportation, is to reach Highway 364, already under construction, where the Ferro-Norte will meet it. As a result, we should be able to ship 10 million tons of Chapada dos Parecis soya from this port of Porto Velho. Soya from the midwest will leave from there and arrive at Rotterdam for US\$ 35 a ton less than at present

Reduction of the Brazil cost and achieving a greater share of the international market. Another fundamental waterway is the Mercosur waterway, linking the Tietê River and the Paraná River from Piracicaba, in São Paulo, or from San Simon in Goiás, on the Paraná River, as far as the Itaipu dam. As for the crossing of Itaipu, which can already be done today by road, viability studies are being carried out to enable the crossing to be done by a system of locks. Various locks will be needed to overcome the 120-meter drop, the cost of which will be, who knows, R\$ 1.2 billion. This seems ex-

pensive, but we must take into account that 20 million tons of cargo a year could be shipped through there. We could effectively ship goods by river 2,400 km from Piracicaba - San Simon down to the Itaipu dam, then down the Paraná River, to enter the River Plate and up again through the Paraguay River, arriving at Cáceres again up at the top, next to Bolívia and the State of Rondônia. Then we shall have 7,000 km of perfectly navigable waterway. This is the Mercosur waterway. It is parallel to the Mercosur highway, and will offer an unquestionably cheaper freight alternative.

In Brazil, President Fernando Henrique Cardoso's philosophy is that long distances, wherever possible, should be covered by water, medium distances by rail, and road transportation, which today, accounts for a significant 60% of the freight, should be reserved for short distances or higher added value merchandise, where shipping speed is essential. This will also allow us to be rational about the Brazil cost.

With regard to the waterways, there are still two others in the Brazil in Action plan. The São Francisco River, leaving Pirapora in Minas Gerais and going up to Juazeiro in Bahia, is an internal waterway but is very significant since it is 1,500 km long. There is also the Araguaia-Tocantins waterway, which comes down from the State of Tocantins along the Tocantins River, and the Araguaia, from Mato Grosso that goes up to the border with Pará. So we have 3,200 km of navigable waterway up to the Tucuruí dam. When we make the crossing of the Tucuruí, which is also under study, we will be able to reach the Amazon. Talking of the influence of a waterway on a state, in the State of Rondônia where the Madeira waterway has begun operations, fuel sales volumes have increased the information is

from the state government by 35% over the same two months last year and an increase in tax collection is projected. Collections of the state tax there, the ICMS, have increased 100% in 1997 over the same period in 1996. This reflects the influence of the River Madeira on this region.

Roads, rivers, railroads and ports; this is the infrastructure that the Brazilian government is presently seeking to hand over to the private sector. seeking local and international partnerships to make this changeover. This morning, I heard a reference that I would like to repeat. Somebody said that Brazil is no longer the country of the future and I want to associate myself with that statement. Brazil is undeniably the country of the present and the Fernando Henrique Government has realized, in my view and I am a Minister of State in this government appropriately, that we had to build bridges, take some short-cuts, to reach this future more quickly. And indeed, with the President's decisions and those of his government team, we are doing this, and I am certain the transportation sector will show this.

Six months ago we could not have imagined it would be possible to auction off Santos, where there are 12,000 port workers, without a strike, without any interruption to normal work or any movement to block the process. Unquestionably, we could not have imagined, six months ago, that we would reach this point where we are certain that, by the end of the year, the whole operation would be privatized, and that mid way through next year we will have leased all the port operations. This shows that Brazil really is no longer the country of the future; Brazil is the country of the present and of the future for Brazilians, naturally with

mittee and Roads & Transportation Committee.

due respect to other nationalities who have faith and belief in this country. But as for the Brazil that was seen as a country that moved slowly although it had all the potential of its natural resources, the potential of its people, 160 million Brazilian souls well, the time has come when we Brazilians have absolute awareness, in particular those of us in government, that Brazil is no longer the country of the future; it is the country which the future almost by-passed yesterday. We are building short-cuts, seeking quicker ways to the present, thus designing a great future. And to do this we want to form partnerships. We have managed to establish internal partnerships within Brazil; international partnerships will be welcome. I am certain that President Fernando Henrique Cardoso and his government will be very pleased with any new partnerships that may arise from this meeting.

Congressman Eliseu Padilha is Brazil's current Transportation Minister. He has a degree in Law from the University do Vale dos Sinos of Rio Grande do Sul. He took post-graduate courses in Political Rights at the same University. From 1989 to 1992 he was the mayor of the city of Tramandai. In 1995 he was elected Federal Representative to the House of Representatives. His term in Congress will last until 1999. In 1995, he became Labor, Citizenship and Social Welfare Secretary of the state of Rio Grande do Sul. At Congress, he was appointed as 1st Vice leader of PMDB (Brazilian Democratic Movement Party) and a member of the Finance & Tax Com-

George Bush

President - USA

"Integration of the Americas and its Effects on the World Economy"

In the first place, I never thought I would listen to a Minister of Transportation and be excited about his message. This was a very positive message of optimism. Last night I was asked by one of the journalists that was at the marvelous reception given by the state minister and Mr. Garnero about Mercosur. He asked why people in the United States objected to Mercosur. And I said, well I do not know whom you are talking to in the United States, because they should not object to Mercosur.

When you hear this Minister talking about a Mercosur corridor, that can only mean prosperity for the members of Mercosur and I would then enlarge that to say making each of those a better and stronger trading partner for the United States. So I am not one who is pessimistic about Mercosur and I am

one who is extraordinarily optimistic about this privatization that is re-invigorating the great country of Brazil.

I am 73, and I wish I were 33. Some of you other old guys ought to wish you were 33 too. But the reason I say that is the Minister talked about the future. And what he was referring to is the comment around the world that Brazil has a great future. But he is right in suggesting that the future is now and that Brazil is rapidly moving forward with a strong respected international economy and when these privatization programs get completed and go forward and attract not only investment from Brazil itself but perhaps from some of you who are right in the audience here and many more people from our country, then you are going to see this potential that he has outlined fulfilled in a short

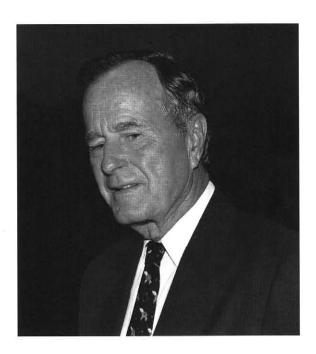
time.

So I am no expert on it, but I do believe in free and fair trade, I do believe in privatization and I think that this is the message that we have heard here today and I expect that the rest of you have heard from some of the other seminars.

You should not be punished by having to listen to me twice. I will simply thank Mr. Garnero, maybe doing this on behalf of some of you all who feel the same way as I do about the contribution that he is making to Brazil, and I would say to international investment, by sponsoring this conference. I appreciate being invited here, I congratulate those who have given the papers and enlightened the audiences and it is just a pleasure and I wish everybody, particularly today from Brazil, God speed and an exciting future which for Brazil is now.

George Bush was elected President of the United States on November 8, 1988, sworn in on January 20, 1989 and served until January 20, 1993. During his term in office, freedom prevailed over the Cold War, and the threat of nuclear war was drastically reduced: a democratic Russia replaced the Soviet Union; the Berlin Wall was destroyed and Germany was reunited. An unprecedented international coalition force liberated Kuwait from Iraq, paving the way for Israel and its Arab neighbors to begin anew their quest for peace in the Middle East.

Mr. Bush was the first sitting Vice President



since Martin Van Buren in 1837, but he was also only the second American President to serve a full term without Party Control in either Chamber of Congress. Nevertheless, President Bush enacted, among other laws, the Americans with Disabilities Act and the Clean Air Act – landmark civil rights and environmental legislation.

Since leaving office, Mr. Bush has focused his time and energy on the completion of the George Bush Presidential Library which is located on the campus of Texas A&M University at College Station, Texas. In addition, Mr. Bush is chairman of the Eisenhower Exchange Fellowship, honorary chairman of the Points of Light Foundation and a member of the Board of Visitors at the MD Anderson Cancer Center in Houston, Texas. In all, President and Mrs. Bush have helped support more than 150 charitable organizations in their community and around the country. In 1995 and 1996, they helped raise more than US\$ 26 million for charity.

President Bush's career in politics and public service began in 1963, when he was elected Chairman of the Harris County (TX) Republican Party. In 1966, he was elected to the U.S. House of Representatives and served two terms. After 1970, Mr. Bush accepted a series of senior level appointments: U.S. Ambassador to the United Nations, Chairman of the Republican National Committee; Chief of the U.S. Liaison Office in China and Director of Central Intelligence. George Bush graduated with a Phi Beta Kappa from Yale University in 1948 with a degree in Economics. He has received numerous honorary degrees and high honors from such countries as Kuwait, the United Kingdom, the Federal Republic of Germany, Nicaragua, Poland and Saudi Ārabia.

Mario Garnero

Chairman, Fórum das Américas and Brasilinvest - Brazil

"Closing Remarks"

Minister Ilmar Galvão, my dear friends, Ministers Elizeu Padilha, Mr. Cesare Romiti — with whom I have had a long-lasting friendship – my dear friend Sérgio Cragnotti, together with whom I might have begun a business venture, my dear friend Carmen Machline and President Bush.

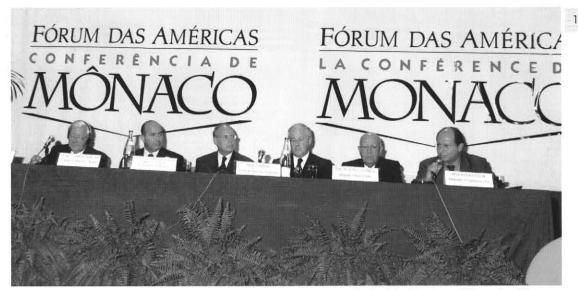
This meeting draws to a close under the sign of friendship. We began it under the sign of friendship and we wish to conclude it under the same terms. We have had important debates and discussions with the participation of 534 registered participants. Our audience included 120 Brazilians, as well as business people from all over the world.

I would also like to particularly thank President Bush, who has been a friend of Brazil, a loyal friend. He has honored us by visiting Brazil and he honors us by being here. At this moment when we are bringing the meeting to a close. I must also thank the Brazilian government and all the Brazilians, as well as Minis-

ter Elizeu Padilha, our ambassadors who are here with us - Jório Dauster, Rubens Barbosa, Marcos Azambuja. I would also like to acknowledge the support that Minister Lampreia has given us at this seminar. My special thanks to our Argentine friends represented by the Chief Justice of the Argentine Supreme Court and by my friend Diego Guelar and by the Argentine businessmen who came to this event. I would also like to thank the support given by Jim Wolfensohn and by the World Bank, in sending a very high-level team here, as well as the Inter-American Development Bank.

Right now, the word I wish to use is thank you, thank you very much, and I certainly hope to see all of you here in Monaco again next year.

The Event

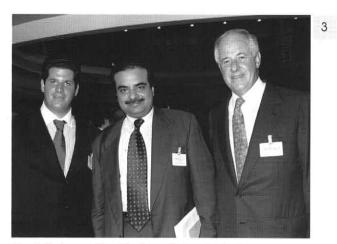


Opening of the Monaco Conference, Chancellor Helmut Schmidt, Ministers Eliseu Padilha and Michel Leveque, Mario Garnero, Ambassadors Marcos de Azambuja and Diego Guelar.



Marcos Troyjo, Helena Lampreia, President George Bush, Ambassador and Mrs. Carlos Pimentel, Mario Garnero and Antonio Cardinali.

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Sheik Salman Khalifa from Bahrain, between Fernando and Mario Garnero.



Rui Patrício, from the Monteiro Aranha Group and Fernando Garnero.



Sir Peter Heap, Justice Sidney Sanches, Mayor Celso Pitta, C. Fred Bergsten, Congressman Inocêncio Oliveira and Mario Garnero.

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Mario Garnero and the Board of Directors of the Forum das Americas: Mario Bernardo, Fernando and Alvaro Garnero.

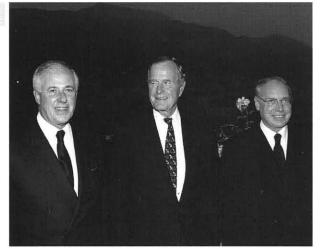


Stanley Au from Delta Asia Group and Mario Garnero Filho.



Ubirajara Formiga, Congressmen José Bezerra, Inocêncio de Oliveira, José Sarney Filho. Paulo Bornhausen and President of Radiobrás Maurilio Ferreira Lima.

7



Mario Garnero, President George Bush, at the Cocktail Party hosted by Michel Leveque.



Mario Garnero, Chancellor Helmut Schmidt and Eugênio Montoro.



Closing of the conference: Carmen Machline, Mario Garnero, President George Bush, Sergio Cragnotti, Justice Ilmar Galvão, Cesare Romiti and Minister Eliseu Padilha.



Eddie Trump, Nina Stevens, Prince Serge of Yugoslavia and Carlos Johanpeter, from the Gerdau Group.



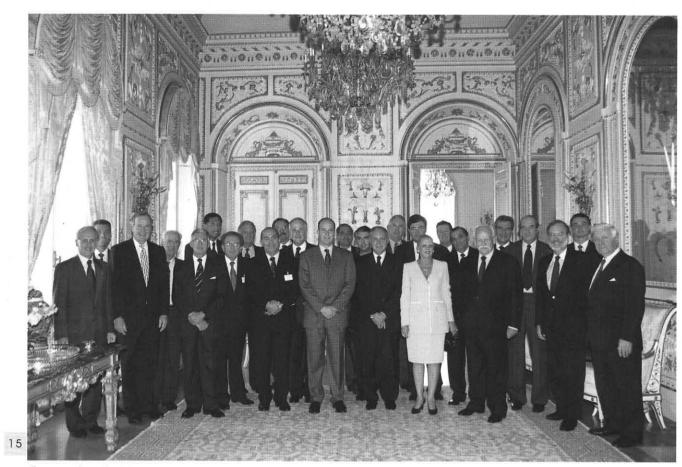
President Bush between Mrs. Barbara Bush and Thereza Collor.

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President and Mrs. George Bush between High Court Justice Ricardo Lewandowsky and Justices Ilmar Galvão, Sidney Sanches and Nilson Naves.



Group of authorities and entrepreneurs hosted by Prince Rainier and Prince Albert for lunch at the Palais Princier.

Enrollment List

Argentina

Cino Molajoni President Organizacion Techint

Diego Christensen President Microtelco - AS

Ambassador Diego Ramiro Guelar Embassy of the Republic of Argentina in U.S.A. Argentine Ambassador to the U.S.A.

Felipe Alejandro Gardella Advisor Embassy of the Republic of Argentina - Economic and Trade Departament

Hector Francisco Amor President Acristal AS Renaut - Aut. Y Servicios Grandola S.A

C.J. Julio Salvador Nazareno Chief Justice of the Supreme Court

Argentina

Pierluigi Molajoni President Organización Techint

Bahamas

Beatrice de Goicochea

George de Goicochea

Stefano Gili Eni Int. Bank

Walter Robin Director MCC Investments S/A delle Bahamas

Bahrain

Salman Bin Khalifa al Khalifa Director Bahrain Petroleum Co.

Belgium

Jean Marie Gille President Compagnie Financiere de Smet

Brazil

Adolfo Rinaldi President - Director Stet do Brasil

Adriane Senna

Deputy Adroaldo Streck House of Representatives

Affonso Ritter TV e Rádio Bandeirantes

Alderico Jefferson da Silva Advisor Ministry of Transportation

Alzira M. Aliprandi Director Superintendent of the Conselho da Mulher Empresária Associação Comercial de São Paulo

Amirah Saba President Rádio Metropolitana

Brazil

Ana Karin Quental Director EMBRATUR - Empresa Brasileira de Turismo

Andréa Dantas Caras Magazine

Andéa Junqueira Financial Mananger Banco Marka S/A

Andreia Lago Rádio Jovem Pan

Antonio Carlos Seidl Folha de São Paulo

Arlindo Marin Mananging Director Hortton International

Mr. & Mrs. Bento Ribeiro Barros Ribeiro Advogados Associados

Breno Micheletto Verlangieri Director -Superintendent Industrias Micheletto S.A

Bruno Carlo Gagliani Partner-Director La Perla

Byron Costa de Queiroz President Banco do Nordeste do Brasil S. A

Caio Augusto Milani President Palladio Representações

Carlos Alberto Cruz Filho Deputy Mayor Campinas City Hall

Ambassador & Mrs. Carlos Alberto de Azevedo Pimentel Dept. for Scientific, Technical and Technological Cooperation of Ministry of Foreign Affairs

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Carlos Perrone Director of the Latin America Business Departament Fischer & Justus

Mr. & Mrs. Carlos Roberto Gonçalves Judge of the 1st Civil Court of Appeals of the State of São Paulo

Mayor & Mrs. Celso Roberto Pitta do Nascimento São Paulo City Hall

Clóvis Noguelra Duarte da Silva TV Guaíba

Eduardo Antoninni Director Varig

Brazil

Eduardo Fischer President Fischer & Justus

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Minister & Mrs. Eliseu Lemos Padilha Ministry of Transportation

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Felice Maria Foglietti President Global Image Estratégia e Marketing

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Flávio Fava de Moraes President of the University of São Paulo University of São Paulo

Garibaldi Otávio de França e Silva Advisor University of São Paulo

Geraldo Motta Director GM Consultoria Ltda

Gian Paolo Carta International Editor Carta Capital - Editorial Office in London

Giorgio della Setta President-Director Pirelli S/A

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Helcius Pitanguy

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Deputy & Mrs. Heráclito Fortes House of Representatives

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Brazil

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Deputy & Mrs. Inocêncio de Oliveira House of Representatives Leader of the Liberal Front Party

Ivan Martins "Isto é Dinheiro" Magazine

Jamil Mattar de Oliveira Advocacia Prof^o Edevaldo Alves da Silva

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Jorge d'Escragnolle Taunay Filho Brazilian Consul General in Marseille

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Chief Justice & Mrs. Jorge Scartezzine Chief Justice of the 3rd Federal Court of Appeals

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Zuhair Warwar Consultant - Dept. for Scientific, Technical, and Technological Cooperation Ministry of Foreign Affairs

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Jefferson Dib China Business International

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Anna di Maio Agent for Foreign Credit Rivoli Strutture Prefabbricate-Verona

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Ronaldo Padovani Market Analyst ICE - Istituto Italiano per il Commercio Estero

Sandro Capotosti Banca Profilo

Italy

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Raymond Biancheri Advisor to the Office of Prince Rainier III Government of the Principality of Monaco

Rene Vestri

Salah Gemayel Eurofinancial Investment Company

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Rasul Gouliev Member of Parliament - The Repúblic of Azerbaijan

Russia

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Sir Peter Heap Advisor HSBC Investment Bank plc Thames Exchange

United Kingdom

Shery Shahnavaz Chaiman Eastern Petroleum

Spyros N. Kernessis Elka Shipping (London) Ltd.

USA

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Angelo Amauri Stabile President SB International Ltd.

Antonio Tavares Paes Vice President Scudder Stevens & Clark, Inc.

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Bruce R. McLean Director Credit Suisse First Boston Corporation

C. Fred Bergsten
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Carmine S. Villani President Milestone Capital Corp.

USA

Cristina K. Halpern SDT USA

Eddie Trump The Trump Group

Mr. Fernando Halpern Partner SDT USA

Francesco Grosoli Republic National Bank of New York

Gaddo Lensi Orlandi Cardini

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Gerard Cohen Director Republic National of New York - Monaco

Gert-Robert Liptau Executive Officer Inter-American Development Bank

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James V. Hackney Director Fieldstone Private Capital Group

John H. Tonelli Director of International Business Development Cadwalader Wickersham & Taft

Julio Mendonza Riglos Merrill Lynch

Kimberly Steel Watch Hill Investiment

L. Ronald Scheman Executive Director Interamerican Development Bank

Lorenzo A Roccia Smith Barney Inc.

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Michael H. Cohn President Kinko's International

USA

Miguel Timponi Director Wasserstein Perella & Co

Raul Grether President Regent Resources International Corp.

Robert P.Smith Director Turan Corporation

Stuart Shelly Director Milestone Capital

Yugoslavia

Prince Serge of Yugoslavia

Acknowledgments

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Ambassador Carlos Alberto de Azevedo Pimentel

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Government of the Principality of Monaco

Franck Biancheri
Henri Fissore
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Consulate of the Principality of Monaco in São Paulo Carmem Machline

Centre de Rencontres Internationales
Sylvie Biancheri
Virginie Camilleri

Institut Océanographique
François Doumenge

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Ana Karin Quental

Affonso Ritter - TV e Rádio Bandeirantes

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Maringá Turismo

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Fórum das Américas

Mario Garnero

Mario Bernardo Monteiro de Carvalho Garnero

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Gala Dinner

Hotel de Paris - Monte Carlo September 30, 1997

Speech by

Mario Garnero

Good evening ladies and gentlemen. I would like to say a few words of thanks before this event comes to an end. I would also like to add that, as our meeting comes to a close, the warm welcome we were given by Monaco leads us to believe that next year if you agree we'll be here to say good evening and to bring this highly diversified group of people together again. As you all have noticed, this group is comprised of prominent members of the political, economic and legal communities. They are not only well-known in the Mercosur member countries but by the international community as well.

I think and I've talked to Minister Levèque about this possibility for the next years that more Europeans should participate in the next event, given that they didn't participate this time around. The World Bank was here, as was the IDB and I think the feeling among the Brazilian participants was that we were truly welcome.

We felt the spirit of cooperation and, perhaps we could say, a spirit of international coordination within a Mercosur that is beginning to take shape and that stands for an economy I wouldn't refer to it as a buoyant economy, but rather as a resplendent one representing GNP of US\$1.4 trillion dollars and a population of 200 million people. Therefore, it is in this sense that I believe a meeting such as this one results in friendship rather than in academic discussion, and creates economic ties with such important partners as Monaco. I believe that Monaco will be an even more important financial and cultural center after the implementation of the Euro. I also believe that Monaco's role may be of great help in conciliating future negotiations with the European Community. And In terms of the United States, we believe in the creation of a true FTAA or a real Union of the Hemisphere.

I do not intend to take up any more of your time, but I would like to tell Mr. Bush that he has always

been someone who has answered for the peaceful conditions we are currently living under. I think he is a truly extraordinary person. I'm sure you all remember how not so very long ago 7 years when he coordinated the peace efforts how he acted. What a fantastic sense he had of his peacemaking mission, his enormous sense of fairness when he said that "I'm here not to kill men. I'm here to restore freedom to all those who have lost it. "Therefore, I feel very close to Mr. Bush. I think that the Mercosur member countries Brazil, Argentina, Uruguay, Paraguay, Chile, that opted for democracy and freedom have made a right choice. I'm very pleased that Mr. Bush was able to say the same words, although he used them in a different sense, and was able to transmit the experience that came from a period of peace and from a war that he won.

Your Highness, I would like to close my speech by saying that we hope we will be able to come back to Monaco in the next years and establish perhaps with the same group of people who came this time a kind of annual conference to be held here under the sponsorship of Monaco and the Forum of the Americas, with the objective of stirring up debate on freedom, and encouraging the economic integration among such diverse groups.

Mr. Bush, I would like you to feel equally optimistic about Brazil, Argentina and the other Mercosur member countries again. I hope that your message, which is very clear and heralded around the world when you speak, conveys the faith that you have in many countries. As our Minister Padilha said we've left the future behind us because we are on the threshold of a new future.

Speech by

George Bush

What a great honor it is to have these two gentlemen who are so widely respected around the world honoring us with their presence here tonight. And what a joy it is for Barbara and me to be here in this marvelous Principality our first visit and I'll tell you, everyone has made us feel very much at home. And I want to thank the State Minister for this marvelous reception. We had a special lunch yesterday and it is a pleasure to be here.

I'm somewhat embarrassed because I speak neither French, Portuguese, nor Spanish. If you want a few words in Chinese, I'm your man! But it is a great pleasure to be here and I'm wedged in here between the vegetables and the caramelized pear. La poire caramelizé.

A fitting place for a former president. And I would like to thank the people in this magnificent hotel for the way in which they've handled this large and enthusiastic group of drinkers and eaters.

It's been wonderful. But I was asked to share a few thoughts on global leadership. I understand that Helmut Schmidt spoke to you on the Euro and on the European Currency and on European Unity. My view on that when I was President is we'll support whatever the Europeans want on it and I'm not sure, and I understand he was optimistic about the common currency and all, and my own view is that's something to be sorted out by the countries themselves and that the United States of America should work with whatever emerges, and not only with the common currency, but as Europe seeks to come together even more. So I won't dwell on that tonight. I realize it's very important.

I've written a book, "A Labor of Love" with Brent Scowcroft some of you may remember him as our national security advisor. He was at my side all four years when I was president, he is very knowledgeable on foreign affairs, and that book is about the policy initiatives

that we took in foreign affairs.

The great challenges that we faced, they say that writing a book is like a journey of discovery. What we discovered it took us two years longer to write this darn book than the publishers wanted but now it's almost over , perhaps what history will reveal, is as interesting a period of change in four years as the world has seen, and certainly in modern times. The Cold War ended when the Berlin Wall fell and then Germany was unified, Eastern Europe was set free, the Soviet Union imploded far more rapidly than anybody ever dreamed it would, being replaced by a newly democratic Russia that is still trying to perfect its democracy.

Desert Storm came along, where we made a moral statement: a large country, with the 4th largest army in the world will not, with impunity, take over its neighbor. You have to pay a price, under international law, if you do that. And that period of time saw the United Nations fulfilling a role that its founders had dreamed it would have but, given the historic animosity between the US and the Soviet Union, there were automatic vetoes that kept the Security Council from doing what its founders thought it would do. But in the Desert Storm macy leading up to Desert Storm the United Nations came of age, and we saw that international law was enacted in a way in which was very helpful in setting back Saddam Hussein's aggression. And of course, the Baltic States were reunited. NAFTA began. The GATT Agreement did not come to fruition in those four years, but it came a long way.

So these were years of fantastic change. I will mention one other area of change since we're talking globally here and that is China. I was not President for 5 months before Tianammen Square took place, and

everybody in this room knows the trauma of the actions of the Tianammen Square and what that meant to relationships all around the world. Today, though, what we've got to keep in mind is that the end of Cold War, as good as that is, does not carry with it a guarantee of peace or stability. The Soviet bear that scared our kids, perhaps some of you all, hiding under our desks, to learn how to avoid nuclear fall-out. Now those fears are gone. The fear of a superpower confrontation is gone. But new threats have emerged. And Churchill once said that the problems of victory are more agreeable than those of defeat, but that they're no less difficult. And then he went on to say that the price of greatness is responsibility, and so today the geopolitical enemies that we face are instability, unpredictability, and then you have fundamentalism, where you have ethnic violence. You have international terror, you have weapons of proliferation, you have international narcotrafficking. And so there are plenty of threats, and if you're lacking an enemy, those are the enemies - they should be the common enemy of the people of Brazil, the people of Monaco, the people of France, whatever.

Each one explains to me why my country at least should remain vigilant; why we've got to continue to work with our allies here, consult with friends, engage the emerging democracies and foster more cooperation, and understanding where historically tension and conflicts have been apt to erupt.

In short I believe, and I hope this doesn't sound chauvinistic, to this powerhouse that is Brazil, the US must not forego international leadership. We must not listen to the siren's call of "let somebody else do it, come home America, we've done our part. Now let someone else figure out these problems." And I'm afraid in my

country today there are just such voices being heard from the democratic left and from the right of my party, the Republican Party. An odd, strange, coalition.

We've got to resist those who would turn America inward, to go back to protectionism, go back to political isolationism, and I think we can, and I salute my successor President Clinton for wanting to stay involved, wanting to assert what I believe is an obligation in some areas to lead.

As participants at this conference know all too well, the world is teeming with opportunity. I was so impressed when I heard the minister talking today. The Minister of Transportation, I think many of you were there, but not all - talking about the opportunities that exist, as Brazil, this huge country who has now whipped its inflation down to reasonable parameters is growing to respectable, very encouraging robust levels of growth and now is moving to put the icing on the cake by moving towards more privatization, and when you look at the map, and you see what he was explaining to us there, you cannot, as Mario indicated, help but feel extraordinarily optimistic about the future of this great country, Brazil, and I hope our friends from Europe who are here, our friends from the United States who are here, will take a very hard look at the wonderful business opportunities, investment opportunities that this whole new system encourages and it warrants the support of all. The world is teeming with opportunity. I took a few shots when I was in office for the vision thing. You should have gone with me for the parachute jump at 12,500 feet. I jumped out of a perfectly good airplane and I could see forever, for the first time it was said George Bush has a "vision" of things. Well, it was true. But anyway, we've got these emerging markets, everybody I think here is interested in expanding access into the existing markets and our economic growth is driven by expanding trade. So each day as the global economy becomes more and more interconnected, so to do our destinies. We become more interdependent, and that's a good thing. It's not a scary thing. It didn't threaten anybody's sovereignty. When I assumed office in January 1989, not long ago, actually, the word was a different place and the matrix of challenges we faced, were entirely different. Back then, we were dealing, as I mentioned, with an imperial empire, heavily armed with nuclear weapons, teetering on the brink of collapse, and today with the superpower conflict behind us, we were able to move on and address, extending the promise of democratic capitalism, not only into Central and Eastern Europe, into the heart of the former Soviet empire, but in the world you all know better than I, in South and Central America, and clearly into Asia. Since leaving office I've done a great deal of travelling from London to Beijing, Romania, Vietnam, you name it. I've also had the opportunity to meet with many of the leaders there and the sense I get is that those who have started down the road to economic and political reform will not turn back.

My beautiful dinner partner asked me whether I miss things about being president. I miss some things. I don't miss the US press, I'll be honest with you. I can't stand them. I don't miss the intrusiveness into our own private lives that seems to go with politics these days. I miss the marvelous staff that made the White House not only the people's museum, but made it the family place for whoever was privileged to live there. So I miss that. But I miss dealing with these foreign leaders with whom I worked. And I really do because I think that was a very fulfilling part of my job as President of the United States.

Some of these leaders have paid a price at

the polls for pursuing painful but needed reforms. Lech Walesa comes to mind, to say nothing on Mikhail Gorbachev, reviled today in Russia. I remain convinced that history is going to be very kind, to use my own expression "kinder and gentler" to Mikhail Gorbachev than the feeling in Russia would indicate today. When you talk about him people forget Glasnost and Perestroika, but these were monumental changes that he advocated and then he permitted to go forward. So history will be kind to him. Some people have the temerity and indeed the rudeness to point out to me that Margaret Thatcher and I are unemployed while Saddam Hussein still has a job.

I don't like that very much but I damp sure don't like it that he still has a job either but people say to me, and this a little diversion, and I'll go back to the text, but people say to me, Why don't you go in and finish the job? That irritates me because the job was to end the aggression. The job was not to kill Saddam Hussein. The job was not to wipe out the Republican Guard, the job was to end the aggression and we tried it peacefully. We tried it through the United Nations resolutions, about 6 or 7 of them. We tried it through diplomacy. We tried it up to the last minute when the first shot was fired by sending Jimmy Baker to Geneva to meet with Tarik Aziz - you may remember that meeting. We tried diplomacy. But then we had to fight. Saddam Hussein said "The United States simply wants to have a toehold in Iraa, and in the Gulf." We won the war in a hundred hours on the ground, and we ended it. And now some of the revisionists are saving. you should have gone in and killed him with whose son? The life of whose son or daughter was I to ask to go into Baghdad and perhaps a fruitless hunt for the most secure, brutal dictator modern times has seen? And I did not want Mission Desert Storm,. We could have rolled the 82nd Airborne and the 101st into Baghdad in forty-eight hours, and we would have been an occupying power in an Arab land, exactly what Saddam Hussein said we wanted to be, the coalition would have shattered. Maybe one or two countries could have stayed with us out of the 31 countries but not more than that, and we would have been alone, making a Nasser-like hero out of a defeated brute, of a tyrant Saddam Hussein. And so am I happy he's there? No. But do I think history will say we did the right thing by living up to the letter of the United Nations resolutions - end the aggression? I believe that history will say we were correct on that. The frustration that we sense in some of the defeated some of these leaders is tainted with nationalism, people wanting to restore the pride of once great countries that are now struggling to begin anew. There's not going to be any going back in my view to the day of the dictator, the day of the colonels, the coups, the Berlin Wall is not going to be resurrected, the Soviet Empire is not going to be put together again like Humpty Dumpty. The Cultural Revolution in China is not going to be resumed as that country, discovering the miracles of private economy, charges forward into the next millenium.

The challenge is to secure the peace, and to make good on the promise of this post-Cold War Era. And I hope this doesn't sound egocentric, but once again, especially when it comes to South America and to Asia, the United States of America has got to stay involved and it has got lead. We've got to lead with integrity. Our word must be good. One of the Justices I know we're honored to have some Justices of the high courts in Brazil here - and one of our Chief Justices, certainly one from the Supreme Court, said "Great Nations, like great men, must keep their word". And so you've got to build your

diplomacy on your word of honor, and then keep it. The United States has to keep its security commitments to Korea, we must not diverge off and try to trade with the son of Kim IL Sung, this new man, Kim IL Yung, I have no confidence in him whatsoever, I think we have to stay firm in our security commitments to Japan. China doesn't like that. China thinks the US security commitment to Japan is a threat to their interests, and I've told their leaders I've been to Japan and to China nine times since leaving the presidency. Barbara and I lived there. And I've told the leaders the security commitment between the US and Japan is in your interest. We weren't your enemies. I don't want to sound personal about it. I was shot down by the Japanese on September 2nd 1944, and I harbor no regrets in my heart at all about that, but I also know that China has nothing to fear from the US Japan Security Agreement. We've got to treat others with respect. I don't know how it was in Brazil's newspapers, or the papers here in this country, in this corner of the world, but I do know that in my country there were all kinds of worst cases about what was going to happen when the Brits withdrew on July 1st and Hong Kong reverted back to China. It's going to go smoothly. You've seen no waivers of fluctuation. We had all kinds of crazy, nutty speculations in our big papers at home as to how China was going to instantly reverse out the freedom of the press, the freedom of demonstration, the freedom to elect. And that hasn't happened and in my view, it's not going to happen. I've known the new chief Executive of Hong Kong, C. H. Tong, for many years. I knew his dad before him, Barbara and I have been in their home and I think Hong Kong is in good hands, and the most important point is, it is in China's interest to keep that window open. Believe me, they are not going to close it.

What's world peace going to be like? What are the threats to world peace? Where could the next major conflagration that might draw Brazil or France or anything into it where might it come from?

I believe, if the United States mishandles the relationship with China, that could be the most significant challenge to peace in the next millenium.

China can be difficult, their leaders can be difficult, they're tough, they're strong, they are not Marxist, Leninist, they got a party problem trying to define what they really are, but they are no more Marxists than our dog, Sadle. They are trying to live with this new emerging economy and they're doing a pretty darn good job on it right now. You never hear them talking about the dictatorship or the proletariat, Karl Marx or something like that. We have people now in our country again in a strange coalition, the labor left in our country wanting to assail China for labor practices and hammer them publicly on human rights. I think if we deal with them properly, they're going to continue to emerge, to raise the standard of living of their people, but some of us look just at China but you've got these other Asian countries people familiar with markets know - having difficulties with their currencies, Thailand being a good example, I thought Mr. Mahateer made a big mistake at the IMF meeting the other day when he attacked currency trading. I think it just shows a lack of knowledge as to how markets work. But all those are passing problems, the Asian countries have reasonable growth; many of you here in this room trade with them and I believe it's a continued area of marvelous potential, the Asian countries as well as China itself. Asia seems to be where a lot of the action is, but I tell the Asians when I go there "Do not overlook South America." Latin America has the second

regional economy in the entire world, fastest growing foreign and domestic direct investments in the area are at a record level, and over the past decades US imports to the region have more than tripled, while the US in turn receives 41% of Latin America's combined imports. That's good. That's what trade is about. Experts predict that by the year 2005, I think it is, our hemisphere is going to boast more than 750 million consumers and a 13-trillion dollar market; and that by the year 2010 some believe the US trade will exceed its trade with Japan and Europe combined. That's the potential, that is part of what this forum was about, this huge potential if all of the countries involved can forego this siren's call of protection and tariffs and trade barriers, and work, as Brazil is working, towards privatization, less regulation, and certainly opening its markets. In the United States we are headed for a big debate now on what's known as fast track. The Congress must give the President the authority to negotiate a trade agreement that Congress can amend. If President Clinton goes and negotiates a trade agreement with Chile, or with an extension of NAFTA - I hope it will be with Chile and he doesn't have fast track, every Congressman from wherever can put an amendment on it and just negate the work of the Administration. So, President Clinton is asking Congress for fast track authority and in my view it should be granted to the President without the environmental considerations, the tag-ons, the add-ons, without the labor add-ons, but in the United States we're having a big political battle because that Republican hard right, the democratic left, including two of the leaders of the President's own party, are fighting him tooth and nail on giving him that kind of trade authority. I want to see NAFTA extended, and when I was president I said the first stop would be Chile, I'd like to say that to Brazil, to Argentina, to all the Mercosur countries, if you want to be in NAFTA, fine, if we have no fears, no worries, no concerns about Mercosur, the only thing that we can and great strides are being towards this goal recently but I think we can all concede that much work remains. I hope I live long enough to see a democratic Cuba. One that respects democracy and freedom. That would make it a pretty darn perfect hemisphere in terms of countries going the democratic route. People say "you said at the time of the Desert Storm that the new there is no new world order. I said "Yes, there is. You don't have super power confrontation. A little kid in the seventh grade in Brazil doesn't go to bed at night wondering why there's some crazy North American is going to pull the trigger and catch his country up in a nuclear conflict with the Russians. You act that as a new world order. But in our part of the world, in our hemisphere, you've got democracy on the move, you have free trade on the move, you have increasing standards of living for the poor guys out in the field and this conference, bringing together these ideas about further privatization and less regulation, in my view is doing the Lord's work to see that will continue.

So I'm an optimist about our own hemisphere and I'm very optimistic about the world we're living in. I shouldn't be here giving advice to this group of business people because I remember President Kennedy giving advice to a group of financial people. He said "If I weren't president I'd be buying stocks right now." The guy in the back of the room said, "Yes, if you weren't president I'd be buying stocks right now." So, I will not conclude by giving advice. I'll conclude by repeating a story, I think I may have told in São Paulo, stated often by my friend Billy Graham, the evangelist. Barbara and I are blessed in our friendship with Billy Graham and he talks to our grandchil-

dren and helps them understand wonderful things. But he tells the story about a guy who was standing where I was and the head table was up behind him. And the man went on, way too long, went on and on, a guy then picked up his shoe, took the shoe off, threw it at the speaker, hit a lady over here in the front row and she said "Hit me again. I can still hear him."

Thank you very much. Thank you so much.



President George Bush and Alvaro Garnero.



Prince Rainier, Prince Albert and Mario Garnero.



Mary Matthews Garnero and Mrs. Barbara Bush



Minister and Mrs. Eliseu Padilha at a dinner party at the Hotel de Paris.

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FÓRUM DAS AMÉRICAS

Av. Brigadeiro Faria Lima, 1485 - 18º andar 01480-900 - São Paulo - Brasil Tel.: (55-11) 870-2534 - Fax: (55-11) 870-5917