

SECTION B4

ECONOMIC DEVELOPMENT IMPACT OF LATIN AMERICAN TRADE

The effect of Latin American trade on the Southeastern Alliance's economic development will be significant. In turn, the growth of trade between Latin America and the Southeastern U.S. will have profound effects on the transportation infrastructure—and therefore economic development in general—of the Region. The increase in freight traffic will directly impact ports, highways, railways, and airports.

A large majority of the world's economies have liberalized trade policies in an effort to counteract the stifling effects of past protectionist attitudes. As free trade agreements like North American Free Trade Agreement (NAFTA) and General Agreement on Tariffs and Trade (GATT) accelerate international trade in the Western Hemisphere, the Southeastern Alliance states need strategies not only to capitalize on trade but also to ensure that needed infrastructure is in place. Even a large, developed economy such as that of the Alliance must be prepared to accommodate increased trade in order for its citizens to benefit optimally from international market opportunities.

In the interest of furthering the economies of Alliance states, policymakers should be familiar with the global marketplace as it applies to their Region. Of particular importance are three key relationships:

- ▶ The Southeastern Alliance's profile as a U.S. economic region
- ▶ International trade relationships, and how they are expected to change
- ▶ Alternative trade scenarios, and projected impacts on Southeast domestic employment and productivity

SUMMARY OF ECONOMIC DEVELOPMENT IMPACTS

The Southeastern Alliance states, taken as a group, had the largest combined Real Gross State Product (GSP) of any area of the U.S. At over \$2 trillion, the Alliance's GSP was considerably larger than that of the North Atlantic, Central, Southwest, and Northwest (**Exhibit B4-1**).

As a percentage of the U.S.' total real GDP, the Southeastern Alliance made up about 29%, with the next closest region being the North Atlantic with 24% of the total (**Exhibit B4-2**). These facts indicate the standing of the Southeastern Alliance as a potent economic entity in its own right. While the Region is not at the top of every single growth category, the volume of production accounted for by Alliance states makes it a powerful international player.

Exhibit B4-1
REAL GSP OF U.S. REGIONS – 1997
(Billions \$'92)

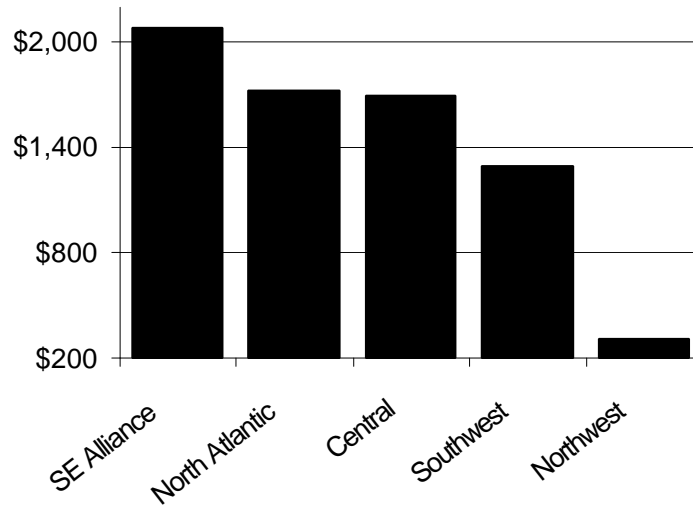
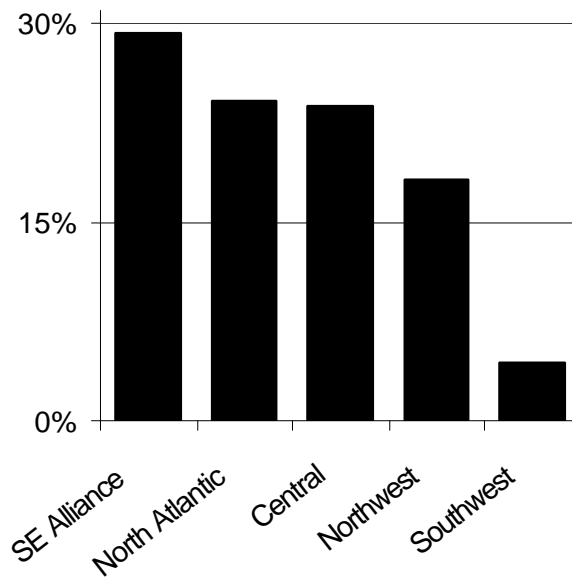
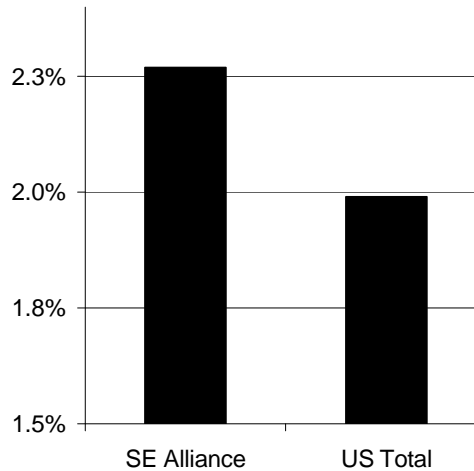


Exhibit B4-2
PERCENT OF U.S. GDP – 1997



In terms of GSP growth, Alliance states are forecast to grow at an impressive rate—one that is notably above the U.S. Total GDP growth (**Exhibit B4-3**). This is an indication that not only is the Southeast a large and prosperous region in terms of annual production, but the Region's productivity is also growing faster than most of the remainder of the nation.

Exhibit B4-3
GSP ANNUAL PROJECTED GROWTH, 1997-2020



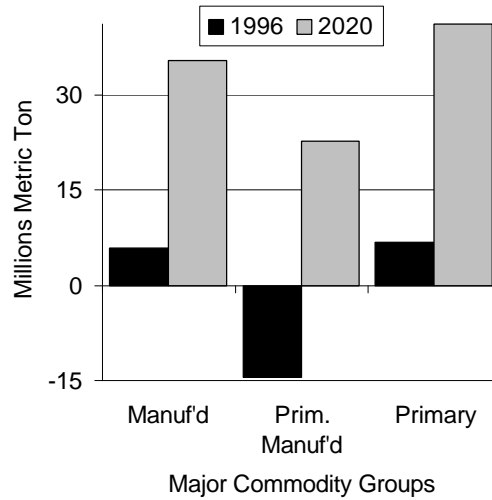
The combination of a large developed regional economy with projected growth higher than the remainder of the nation makes the Southeastern Alliance an attractive trade partner for Latin American nations hoping to sustain and improve their positions as developing national economies. Such nations can realize substantial gains from trading with Alliance members who provide markets for goods as well as sources of capital investment dollars.

Summary of Trade Relationships

A key determinant of the Southeastern Alliance's ability to maintain the momentum of the current cycle of economic development will be its ability to develop a strong and constructive role in the ongoing integration of the Western Hemisphere's economy. The Alliance's trade relationships with Latin America provide insights into the role that it may play over the next couple of decades, particularly when looking at projections of future trade balances.

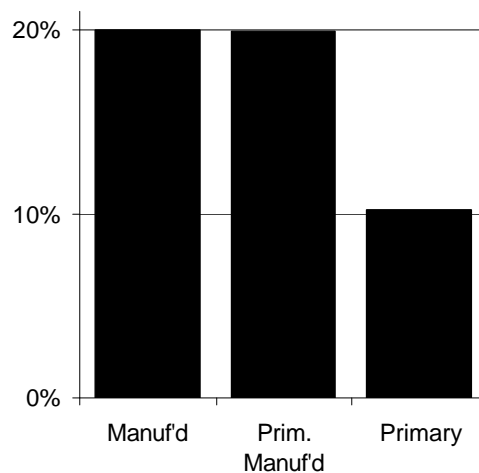
There are many product categories in which the Southeastern Alliance will either increase an already positive trade balance or convert a negative balance into a positive one. While negative trade balances in oil, gas, and other natural resources are unlikely to diminish, the Alliance stands to improve its position considerably in the trade of Manufactured, Primary Manufactured, and Primary Commodities between now and 2020 (**Exhibit B4-4**).

Exhibit B4-4
ALLIANCE TRADE BALANCES WITH LATIN AMERICA



The projections for trade relationships with Latin America in the early 21st century suggest annual improvements in each of these commodity groups of between ten to twenty percent (**Exhibit B4-5**). Given this type of annual growth in trade balances, the Southeastern Alliance clearly stands to profit from growth in international trade. Again, growth in trade and trade balances adds emphasis to the necessity of evaluating and upgrading trade infrastructure throughout the Region.

Exhibit B4-5
PROJECTED ANNUAL CHANGE IN TRADE BALANCES
1996 – 2020



Summary of Economic Impacts of Trade with Latin America

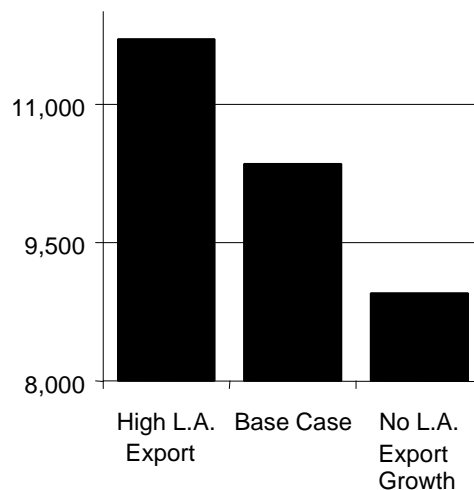
Trade with Latin America leads to additional jobs for the people of the Southeastern Alliance. Given the Region's position in the Western Hemisphere's economy, these jobs are likely to be created in value-added industries and in the higher wage occupations within those industries. Using a system of macroeconomic models, simulations were undertaken to predict the impact of Latin American trade on the Alliance. By choosing some potential scenarios for trade, levels of Southeastern Region employment were compared for different trade schemes.

Three of these scenarios were:

- ▶ Base Case – predicts employment if current trade conditions with Latin America are maintained in future years
- ▶ High Case – reflects the possibility of exports to Latin America increasing a great deal in coming years
- ▶ No Exports – depicts employment levels if there were no Southeastern exports to Latin America (a proxy for no trade)

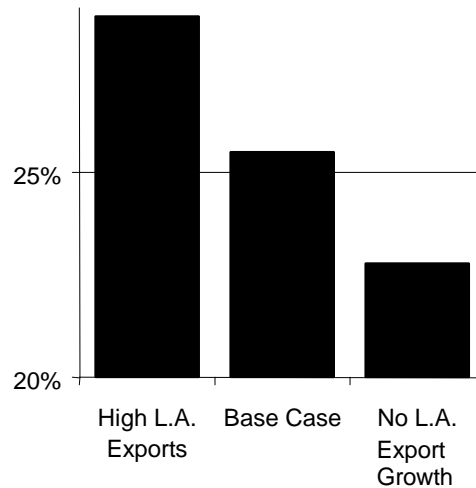
In the Base Case scenario, employment was predicted to increase by 10 million jobs between 2000 and 2020. That is, assuming current trade and economic growth continues, there will be 10 million additional jobs in the Southeastern Alliance states. In the High Case, employment will go up by 11.7 million jobs. Finally, if there was no growth in exports to Latin America from the Alliance, then employment growth would amount to just under 9 million (**Exhibit B4-6**).

Exhibit B4-6
CHANGE IN ALLIANCE EMPLOYMENT - FROM 2000 TO 2020
(Thousands of Jobs)



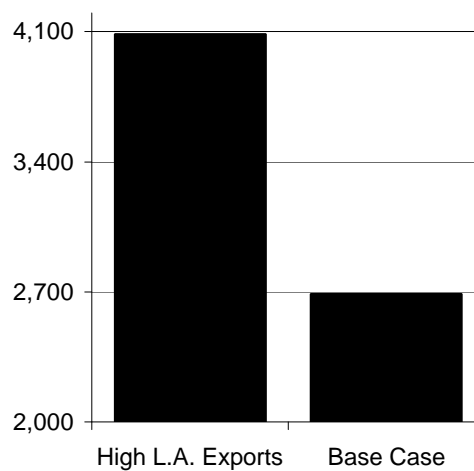
In each case, these changes represent significant growth percentages over the year 2000 prediction (**Exhibit B4-7**).

Exhibit B4-7
PERCENTAGE CHANGE IN EMPLOYMENT, 2020 VS. 2000



The High Case scenario represents notably stronger job creation, though, and the No Exports scenario would yield 2.7 million fewer jobs than the Base Case (**Exhibit B4-8**).

Exhibit B4-8
JOB GROWTH DIFFERENCE OVER “NO EXPORT” SCENARIO
(Thousands of New Jobs)



ECONOMIC DEVELOPMENT IMPLICATIONS

The focus of LATTs was the impact that Latin American trade growth will have on the transportation infrastructure of the Southeastern Alliance Region. As has been described in other components of this study, the increase in the volume of freight traffic associated with U.S./Latin American trade will directly affect the Region's ports, highways, railways and airports.

Trade with Latin America also has broader implications for the overall path of the Region's economic development. The purpose of this component of the study was to:

- ▶ provide estimates of the economic impact that Latin American trade might have on the Southeastern Alliance,
- ▶ consider the issue of balance of trade, and
- ▶ identify business opportunities that arise from the commodity flow forecast.

Economic Context

The importance of the role of trade in economic development has undergone a major transformation in Latin America and other parts of the developing world. In over three-quarters of the world's developing economies, substantial trade liberalization programs are now being implemented as a means of accelerating economic growth in explicit recognition of the failure of protectionist trade policies to deliver economic prosperity. Many of the remaining developing countries have also begun the process of discarding existing trade-impairing policies as part of an effort to liberalize their economies.

Even in developed economies with large domestic markets such as the Southeastern Alliance, the linkage between trade and rising living standards is becoming increasingly clear to broad segments of the population. The people of the Southeastern Alliance Region need to make important strategic choices to ensure sustainable development and increased opportunities for its citizens. A key success factor will be the ability to understand and capitalize on the Region's position in the global trade environment. These choices will necessarily be undertaken in a rapidly changing international arena characterized by:

- ▶ **A More Complex Global Marketplace:** Over the last decade demands for both more sophisticated consumer products and high-technology capital goods have risen while heavy industries have declined. The number of competitors in the global marketplace has increased, and intra-Asian trade is now larger in volume than Asian trade with America or Europe.

- ▶ **Emerging New Industrial Patterns:** Around the world, traditional vertically organized industry patterns are being replaced by network arrangements among firms. These new arrangements have increased the importance of industrial concentrations, local suppliers, and international distribution networks in determining industry and trade performance.
- ▶ **Shortening Product Lifecycles:** The nature of technological innovation and consumer demand has created an environment for new products whose lifecycles are relatively shorter than before. This has forced producers to remain competitive through heightened applications, innovation and quick responses to consumer demands.
- ▶ **Changing Requirements for Economic Infrastructure:** Where once basic human resource and physical infrastructure development was sufficient to compete as an industrial economy, new needs have emerged as a result of product advances made by industrial leaders. An increasingly wider array of occupational skills is now required to compete effectively. Attention to global technology developments is necessary to avoid being left behind by industry-destroying innovations. Similarly, information technology and logistics have become part of the basic framework for industrial development.
- ▶ **New Patterns of Geographic Division of Labor:** With agreements such as NAFTA, the Common Market, the Association of South East Asia (ASEAN), the Latin American Free Trade Agreement (LAFTA), countries around the world are increasingly reaching across-borders to develop competitive advantages by leveraging the differences in wage rates, technology development and industry capabilities.
- ▶ **A New Global Trading Regime:** An entirely new international order imposed by the demands of a new formalized regime governed by the World Trade Organization will influence how countries re-structure their governing methods, enact new legislation, and build relationships based on new trading requirements.

The Southeastern Alliance has a fast growing and dynamic economy that is highly suited to develop a strong position in this new global trading environment. A well-developed basic infrastructure is required which supports a strong set of advanced infrastructure elements such as a well-educated workforce, communications and access to advanced technology. The Region's geographic position and the history of its people make it well positioned to take the best advantage of the division of labor patterns that exist within the Americas. This position is based on the clear understanding that while Latin America offers elements of both market opportunity and competition, it is most helpful to think of it as a partner to work with to develop a mutually beneficial role within the emerging trading bloc of the Americas.

Economic Summary

Exhibit B4-9 presents the basic key performance indicators for the Southeastern Alliance, its member jurisdictions as well as the other regions of the United States. Relative performance of the Alliance versus the U.S. average is plotted in **Exhibit B4-10**. Real Gross State Product in the Southeastern Alliance Region will grow at 2.3% annually, and employment at 1.2%, both above the national average over the 1997-2020 forecast horizon.

The growth in Real Gross State Product in the Southeastern Alliance, at 2.3% annually, rivals the fastest growing (2.5%) Southwest region. Employment in the Southeastern Alliance will grow at 1.2% over the 1997-2020 forecast period, again lagging the Southwest and slightly below the Northwest. The Southeastern Alliance Region is very competitive in terms of business costs and other important elements of a positive business environment. As with many areas, a shortage of skilled labor in the Region is currently limiting its ability to develop the fast growing high-tech industries. However, this is a challenge that is actively being addressed by both business and political leaders in the Region.

Growth forecasts for the member jurisdictions will, for the most part, reflect past economic success, with Texas, Florida, Virginia, and North Carolina leading the way on the mainland. Puerto Rico, however, will achieve the fastest real GSP growth in the Region.

Economic Outlook

The Southeastern Alliance Region has experienced above average growth in recent years, outperforming its northern neighbors, but unable to keep up with the runaway pace of western regions. Texas and Florida led the Region in job growth in 1997, with 4.2% and 4.0% respectively. On the other side of the spectrum, Mississippi and West Virginia lagged behind with growth of 1.6% and 1.5% each, well behind the national average of 2.6%.

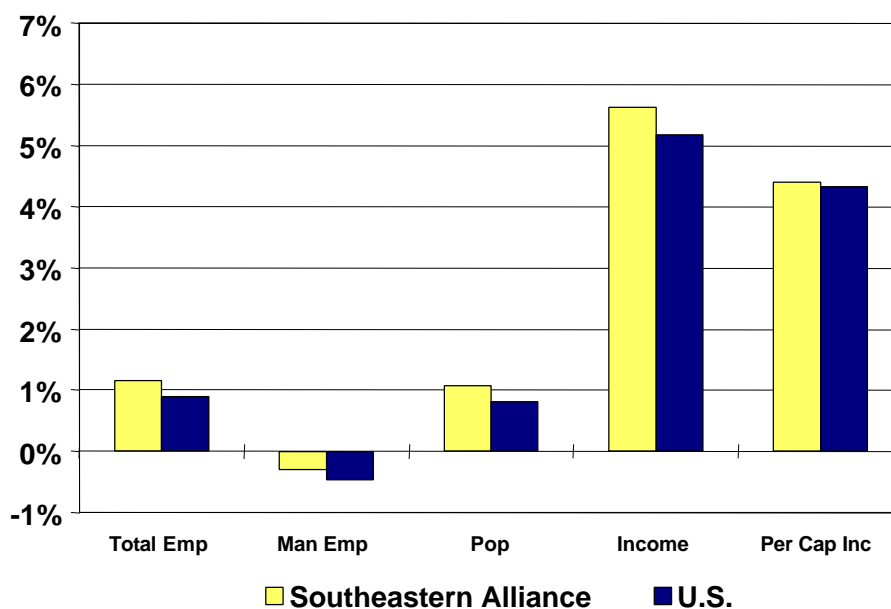
Over the forecast period 1997-2020, these trends will continue, with the Southeastern Alliance achieving above average annual growth in employment and real gross state product, but not as fast as the Northwest and Southwest region. Within the Southeastern Alliance, the growth patterns are consistent through employment, population, and real GSP. Eight of the Region's states will grow faster than the national average, while the other six will lag. Florida and Texas will lead the Region in GSP and employment growth. Florida's rapid population growth will contribute to achieving the highest employment growth rate over the forecast period, while Texas will retain the lead in real GSP growth. These growth trends are especially impressive considering that these states also have by far the largest bases of employment and GSP in the Region.

**Exhibit B4-9
ECONOMIC PERFORMANCE INDICATORS**

	Average Annual Growth, 1997-2020						
	Real GSP (Bil. 92\$)	Population (Millions)	Employment (Thous.)	Manufacturing Emp. (Thous.)	Services Emp. (Thous.)	Personal Inc. (Bil. current \$)	Per Capita Income (current \$)
Alabama	1.62%	0.47%	0.51%	-0.62%	1.53%	4.90%	4.40%
Arkansas	2.12%	0.83%	0.90%	-0.05%	1.89%	5.45%	4.58%
Florida	2.63%	1.52%	1.73%	0.14%	2.50%	6.18%	4.59%
Georgia	2.17%	1.17%	1.19%	-0.41%	2.23%	5.67%	4.45%
Kentucky	1.77%	0.49%	0.54%	-0.60%	1.52%	4.88%	4.37%
Louisiana	1.66%	0.33%	0.47%	-0.13%	1.24%	4.76%	4.41%
Mississippi	1.64%	0.36%	0.42%	-0.61%	1.39%	4.96%	4.59%
North Carolina	2.31%	1.23%	1.21%	-0.52%	2.56%	5.68%	4.40%
Puerto Rico *	3.18%	0.44%	---	---	---	---	5.89%
South Carolina	2.16%	1.07%	1.08%	-0.63%	2.35%	5.75%	4.63%
Tennessee	1.88%	0.64%	0.72%	-0.45%	1.68%	5.22%	4.54%
Texas	2.65%	1.35%	1.41%	0.07%	2.35%	5.83%	4.42%
Virginia	2.06%	1.01%	1.08%	-0.25%	1.98%	5.42%	4.37%
West Virginia	1.43%	0.29%	0.39%	-0.24%	1.17%	4.97%	4.66%
Southeast Alliance	2.27%	1.08%	1.16%	-0.29%	2.16%	5.63%	4.50%
North Atlantic	1.48%	0.30%	0.44%	-0.89%	1.19%	4.65%	4.36%
Central	1.69%	0.41%	0.51%	-0.58%	1.41%	4.67%	4.33%
Northwest	2.24%	1.14%	1.20%	-0.28%	2.17%	5.42%	4.23%
Southwest	2.47%	1.35%	1.44%	-0.10%	2.33%	5.72%	4.31%
US Totals	1.99%	0.82%	0.90%	-0.47%	1.79%	5.18%	4.33%

**Although Puerto Rico is shown here for comparison, it is not included in the Southeastern Alliance or U.S. totals, since the data was incomplete.*

**Exhibit B4-10
RELATIVE PERFORMANCE
(Annual Average Growth, 1997-2020)**



Industrial Patterns

A favorable development has been the Region's increasing industrial diversity. Employment gains in the electronics and automotive industries are counterbalancing job losses in the textile, apparel, tobacco, and pharmaceutical industries.

The share of manufacturing employment in the Southeastern Alliance is on par with the national proportion. While employment in this sector will fall, as in the rest of the nation, the losses will not be as severe as in the North Atlantic or Central Regions. The service sector will be the most dynamic in employment growth over the next two decades, buoyed by rapidly growing high-technology industries. The development of the Research Triangle in North Carolina will spur service employment growth to the highest rate in the Southeastern Alliance, at 2.6% per year.

The oil price slump of the mid-1980s dealt a heavy blow to Louisiana and Texas. Nevertheless, strong oil prices in the mid-1990s allowed a revival in energy-related industries. Recent technological advances have lowered exploration and extraction costs, allowing oil producers to remain profitable.

Competitive Forces

The Southeastern Alliance's comparatively strong economic growth is sustained by a strong influx of people. Net migration to the South has been very high over the past five years, with Florida, Texas, Georgia, and North Carolina attracting the most residents. A slight moderation is expected over the next few years, before the retirement of baby boomers starts a new wave of in-migration in the next century. Rapid population gains have resulted in overcrowding of schools and congestion of the Region's transportation infrastructure. In many urban areas, water and air pollution are emerging as serious concerns.

Despite steady in-migrations, labor shortages (especially in high-skilled jobs) are constraining growth and putting upward pressure on wages. Low educational attainments are a limiting factor for many of the Southeastern Alliance states. It is of course encouraging that many business and political leaders understand that the emerging drivers of the economy, high-technology industries, require a highly-trained work force. Current concerns about labor and skill shortages are certainly pressing but they are also a function of success.

All of the Southeastern Alliance states have a per capita income growth rate above the national average. However, this mirrors the picture of low per capita income levels; all SE states are below the national average. Indeed, the Southeastern Alliance average per capita income in 1997 was the lowest among the regions. At the same time, low wages and business costs in the Southeastern Alliance are an attraction to companies. Many states also have incentive programs to attract key industries to locate within their borders.

CLUSTERS AND ECONOMIC DEVELOPMENT

The strength of a region's industry clusters and their ability to generate a strong and growing inflow of export earnings are a key determinant of success.

Clusters are groups of similar businesses that are important to a regional economy because, unlike single companies or plants, together they create more jobs and are better able to adapt to market changes over time. The "clustering effect" happens when many similar firms and their suppliers locate near each other in and around a region. This clustering results in the growth of a specialized set of capabilities—skills, technologies, business services—that is more than the sum of its parts. Successful regional economies are able to provide the businesses in its clusters with advantages in inputs that other competing regions are not able to provide.

Successful clusters are also well positioned in terms of the international distribution of labor. They are based on strong foundations within their own regions but also have strong and complementary linkages with suppliers and markets in other regions. The strength of these linkages effectively determines the level and nature of the region's trade with the rest of the world. In the context of Southeastern Alliance trade with Latin America these linkages are of particular importance.

The clusters of the Southeastern Alliance and the success they have in export markets will play a key role in making its economy more dynamic and adaptable. A strong economic infrastructure creates a more dynamic economy and attracts investment, which in turn leads to improvements in infrastructure and stronger clusters. Each element of this "virtuous cycle" supports the other elements (see **Exhibit B4-11**).

HEMISPHERIC INTEGRATION: A LOOK AT TRADE BALANCES

A key determinant of the Southeastern Alliance's ability to provide continued momentum to its current virtuous cycle of economic development will be its ability to develop a strong and constructive role in the ongoing economic integration of the Western Hemisphere's economy. A common means of evaluating the extent of integration and the benefits of trade is trade balance analysis. While it is important not to draw too many conclusions from such analysis, it is still a helpful way to illustrate the Southeast's role with respect to Latin American trade.

As can be seen in **Exhibit B4-12**, the Southeastern Alliance has a large negative oil and gas trade balance with Latin America. This negative balance is of course primarily a function of large oil and gas resource endowments in Latin America and geographic proximity to a large center of energy and feedstock demand in the Southeast. Similar reasons lie behind the negative trade balances in metallic ores, non-metallic ores, primary metal products, stone, clay and glass and petroleum and coal products. Latin America has large endowments of metallic ores which can be cost effectively transported to the

Exhibit B4-11
THE VIRTUOUS CYCLE OF ECONOMIC DEVELOPMENT

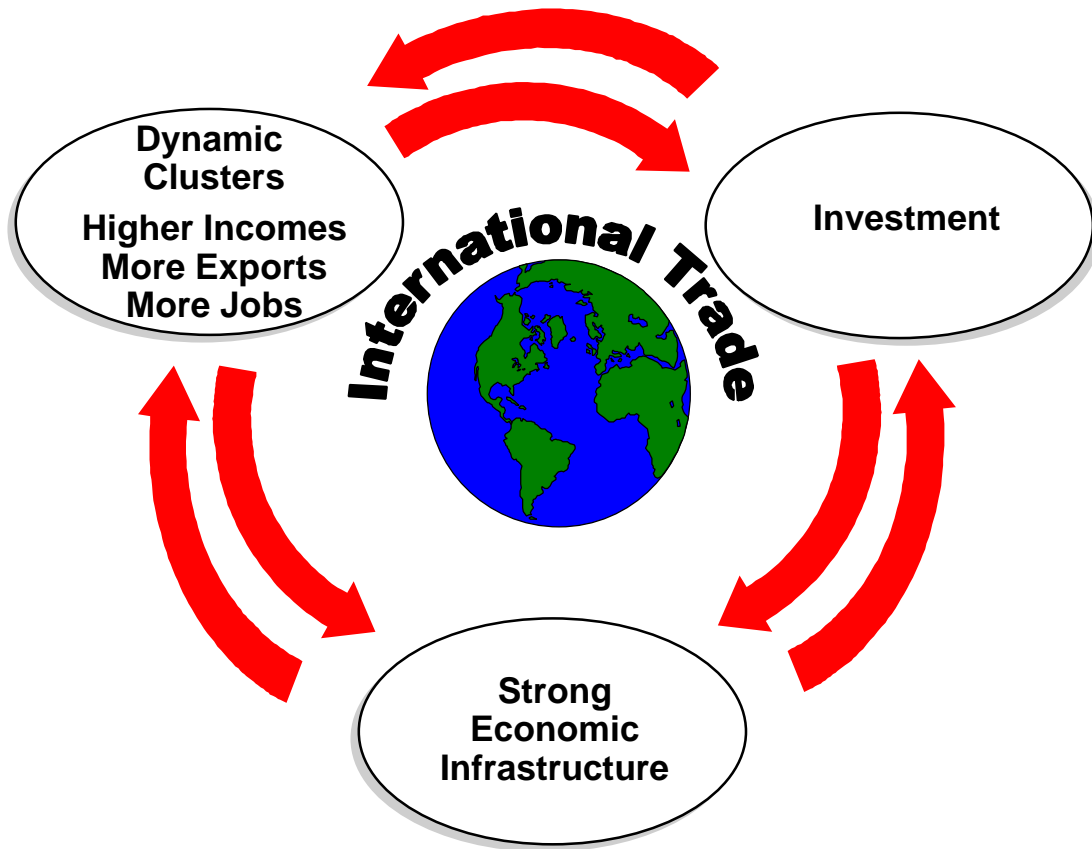


Exhibit B4-12
BALANCE OF TRADE BY COMMODITY: 1996

Commodity	Southeast Alliance Gateway Exports 1996 (MT)	Southeast Alliance Gateway Imports 1996 (MT)	Southeast Alliance Gateway Trade Balance 1996 (MT)
Total All Commodities	99,009,351	241,093,596	-142,084,245
Manufactured Commodities	21,153,234	15,242,930	5,910,304
Primary Commodities	41,714,215	34,894,324	6,819,891
Primary Manufactured Commodities	36,057,747	50,491,652	-14,433,905
Crude Oil and Natural Gas	84,152	140,464,700	-140,380,548
01-Farm Products	23,754,336	5,129,903	18,624,432
08-Forest Products	483,387	234,498	248,888
09-Fresh Fish & Other Marine Products	10,450	176,065	-165,616
10-Metallic Ores	488,186	16,165,245	-15,677,058
11-Coal	7,046,525	1,993,569	5,052,956
14-Nonmetallic Minerals, Exc Fuels	9,931,334	11,195,040	-1,263,707
19-Ordnance and Accessories	2,262	1,229	1,033
20-Food and Kindred Products	5,400,769	3,290,285	2,110,484
21-Tobacco Products	28,076	147,779	-119,703
22-Textile Mill Products	452,914	188,438	264,476
23-Apparel	437,758	544,885	-107,127
24-Lumber and Wood	1,625,164	2,019,248	-394,084
25-Furniture and Fixtures	177,208	273,873	-96,665
26-Pulp and Paper	2,857,580	434,653	2,422,927
27-Printed Matter	333,961	190,406	143,555
28-Chemicals	14,651,670	7,204,978	7,446,691
29-Petroleum and Coal Products	14,285,030	26,728,666	-12,443,637
30-Rubber & Plastics	848,287	276,665	571,623
31-Leather	42,486	80,994	-38,508
32-Stone, Clay, Glass & Concrete	5,593,638	10,370,195	-4,776,558
33-Primary Metal Products	1,527,421	6,187,812	-4,660,391
34-Fabricated Metal Products	1,361,092	989,493	371,599
35-Machinery, exc Electrical	1,385,372	590,768	794,604
36-Electrical Machinery	1,076,982	910,036	166,947
37-Transportation Equipment	1,245,102	2,505,575	-1,260,473
38-Instruments	111,885	72,992	38,893
39-Misc Manufacturing	109,732	62,478	47,254
40-Waste and Scrap	2,336,735	1,690,089	646,646
41-Misc Freight	29,868	3,580	26,288
46-Misc Mixed Shipments	33	12	21
Unknown	1,289,959	969,449	320,510

Southeast for processing into more value-added products. The oil and gas stocks in Latin America give some advantage to the production of oil and gas products from this resource for use in the Southeast.

The key point is that these large negative balances are not in any sense “bad” for the Southeast. They merely indicate the logical outcome of specific natural resource endowments. Similarly, the large positive coal balance for the Southeast is simply a factor of strong resource endowments that are located near efficient Southeast Atlantic ports. In addition, the Region’s forestry industry has become a world leader in the production of softwood fiber that gives it strong advantages in the Latin American market.

The Southeastern Alliance’s agrifood cluster (farm and food products) has a strong positive trade balance with Latin America. This is certainly partly a

function of resource endowments that permit efficient production of wheat, corn and other grains that are in demand in Latin America. However, of increasing importance, is the Southeast's capability of producing high-value added food products that will become increasingly in demand as Latin American per capita income levels rise. In many cases these southbound food products will require special transportation infrastructure to ensure their delivery to consumers in a way that maintains their value-added market position.

The leadership position of the Region's chemical cluster is also demonstrated by the trade balances. The Region's ability to produce basic and more value-added chemicals at low costs makes the Latin American market a promising market.

Some of the positive and negative industry trade balances should be considered in pairs. For example, the positive Textile Mill Products balance is a logical complement to the negative Apparel balance. High value-added textiles and clothing components are produced in the Southeast. These are shipped to Latin America for lower labor cost assembly into apparel, some of which is then shipped back to the Southeast. These pairs of commodity flows are indicative of the success that the Southeast will have in many industries – providing the higher value-added manufactured inputs as well as key design, marketing and R&D inputs to a wider chain of production that includes final assembly in Latin America. This final assembly often takes place in Latin America due to wage cost differentials, but it can also occur there due to reasons of market proximity. Especially in large markets such as Brazil, local assembly will make sense as a means of ensuring the ability to quickly and flexibly respond to changing local market conditions.

Over the next 25 years, the negative trade balance is set to shrink. As can be seen in, **Exhibit B4-13** the overall trade deficit will fall from 42% of total trade (in metric ton terms) to 28% of total trade. Important contributors to this improvement in the overall trade balance include: Nonmetallic Minerals, Waste and Scrap, Petroleum and Coal Products, Transportation Equipment, Misc Manufacturing, Chemicals, Stone, Clay, Glass and Concrete, Electrical Machinery and Food and Kindred Products.

The trade balance will not uniformly improve over the next 25 years. The general trend is for Latin America to experience increased success in a number of industries in which lower labor costs or favorable natural resource endowments play an important role. The following are the most important commodities that will see a deterioration in the Alliance gateway trade balance with Latin America: Apparel, Instruments, Furniture and Fixtures, Printed Matter, Coal, Lumber and Wood, Rubber & Plastics, Fabricated Metal Products, Pulp and Paper, and Farm Products.

Exhibit B4-13
BALANCE OF TRADE BY COMMODITY: 1996 AND 2020

Commodity	Southeast Alliance Gateway Trade Balance 1996 (MT)	Balance as % of total trade (%)	Southeast Alliance Gateway Trade Balance 2020 (MT)	Balance as % of total trade (%)
Total All Commodities	-142,084,245	-42%	-295,870,472	-28%
Manufactured Commodities	5,910,304	16%	35,419,054	16%
Primary Commodities	6,819,891	9%	40,949,308	17%
Primary Manufactured Commodities	-14,433,905	-17%	22,509,125	10%
Crude Oil and Natural Gas	-140,380,548	-100%	-394,747,945	-100%
01-Farm Products	18,624,432	64%	41,780,790	48%
08-Forest Products	248,888	35%	2,991,043	59%
09-Fresh Fish & Other Marine Products	-165,616	-89%	-539,538	-85%
10-Metallic Ores	-15,677,058	-94%	-47,107,244	-88%
11-Coal	5,052,956	56%	6,239,114	22%
14-Nonmetallic Minerals, Exc Fuels	-1,263,707	-6%	37,585,132	59%
19-Ordnance and Accessories	1,033	30%	-461	-6%
20-Food and Kindred Products	2,110,484	24%	10,863,417	40%
21-Tobacco Products	-119,703	-68%	-54,348	-12%
22-Textile Mill Products	264,476	41%	1,419,983	41%
23-Apparel	-107,127	-11%	-3,619,075	-53%
24-Lumber and Wood	-394,084	-11%	-12,109,190	-43%
25-Furniture and Fixtures	-96,665	-21%	-1,531,451	-57%
26-Pulp and Paper	2,422,927	74%	9,165,242	52%
27-Printed Matter	143,555	27%	-171,433	-8%
28-Chemicals	7,446,691	34%	42,661,521	56%
29-Petroleum and Coal Products	-12,443,637	-30%	7,063,501	11%
30-Rubber & Plastics	571,623	51%	2,271,465	21%
31-Leather	-38,508	-31%	-254,751	-43%
32-Stone, Clay, Glass & Concrete	-4,776,558	-30%	-4,282,370	-10%
33-Primary Metal Products	-4,660,391	-60%	-22,933,511	-59%
34-Fabricated Metal Products	371,599	16%	-1,673,671	-9%
35-Machinery, exc Electrical	794,604	40%	7,232,109	47%
36-Electrical Machinery	166,947	8%	4,203,859	26%
37-Transportation Equipment	-1,260,473	-34%	372,784	1%
38-Instruments	38,893	21%	-218,286	-17%
39-Misc Manufacturing	47,254	27%	352,047	53%
40-Waste and Scrap	646,646	16%	15,129,485	73%
41-Misc Freight	26,288	79%	107,763	86%
46-Misc Mixed Shipments	21	47%	26	100%
Unknown	320,510	14%	3,933,546	66%

ECONOMIC IMPACT

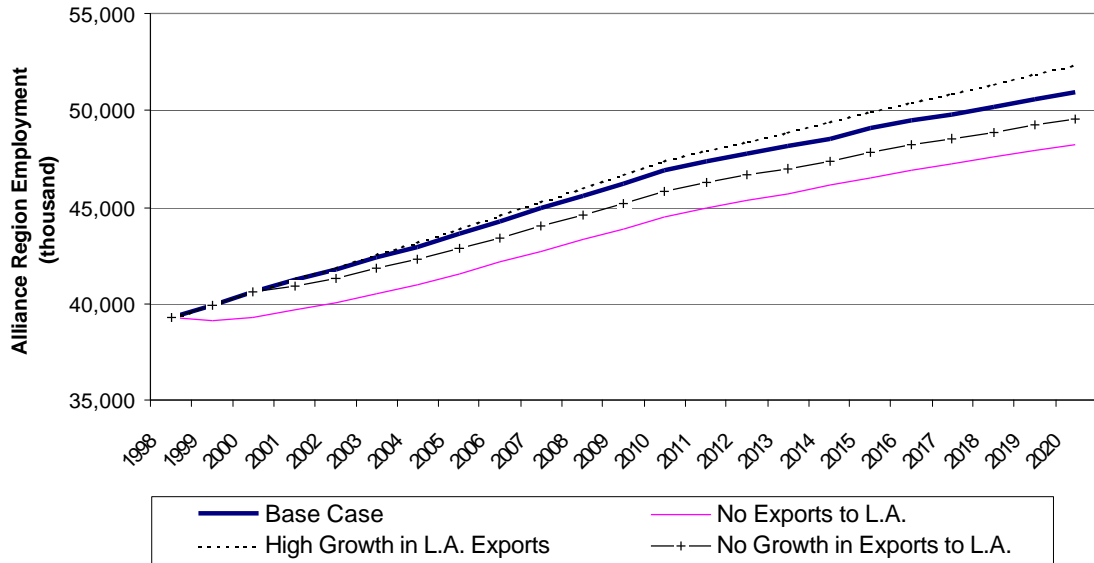
Trade with Latin America generates jobs for the people of the Southeastern Alliance. Furthermore, the Region's position in the hemispheric economy means that jobs created will be in the more value-added industries and in the higher wage occupations employed within those industries. While this should be clear from simple analysis of the trade figures, a quantitative analysis was undertaken to provide a clear estimate of the benefits generated by exports to Latin America. For this analysis, a system of U.S. state and regional macroeconomic models was used to undertake two simulations which explore the impact of Latin American trade on the Alliance Region.

The key findings were that nearly 1.3 million of the Alliance Region's jobs are currently supported by exports to Latin America. Strong growth in exports to

Latin America over the 25 year analysis period will generate an additional 1.4 million jobs. In terms of economic output, growth in exports to Latin America will generate an additional \$105 billion (1992 \$) of Real Gross Regional Product – roughly equal to the current output of Louisiana.

Exhibit B4-14 illustrates some of these impacts on non-farm employment in the Region. The “Base-Case” scenario is for the level of employment in the Region over the 25 year analysis period which incorporates the export growth forecast in this study. The “No-Growth” level of employment shows the impact of a complete absence of Latin American export growth. The more extreme “No-Export” situation shows the impact of Latin American exports falling to zero. The “High-Growth” scenario shows how a higher growth forecast of exports to Latin America would affect employment in the Region.

Exhibit B4-14
ALLIANCE REGION NON-FARM EMPLOYMENT



No Latin American Exports Scenario

The first simulation was based on the question: What if exports to Latin America did not exist? This involved assumptions that allowed for the removal of current and forecast Latin American trade from the Southeastern Alliance’s economy. The results from this analysis were then used to determine the number of jobs that are and will be supported by Latin American exports.

As can be seen in **Exhibit B4-15**, by 2020 there will be 2.7 million jobs dependent on exports to Latin America. Without these exports, employment would be lower by 5.3%, real Gross Regional Product would be 5.3% lower and state and local taxes would be 5.7% lower. Looking over the shorter-term, the results show that in the year 2000, Latin American trade will be supporting 1.29 million jobs in the Region and generating \$5.2 billion (1992 \$) in state and local taxes.

Exhibit B4-15
IMPACT OF LATIN AMERICA TRADE ON THE SOUTHEASTERN ALLIANCE
What if there were no exports to Latin America?

	2000	2005	2010	2015	2020
Total Nonfarm Employment (thousands of jobs)					
Base Case	40,583.77	43,604.58	46,869.14	49,049.88	50,932.59
"No L.A. exports" Alternative	39,290.45	41,555.09	44,509.87	46,542.07	48,244.15
Difference	-1,293.32	-2,049.49	-2,359.27	-2,507.82	-2,688.44
%Difference	-3.2	-4.7	-5.0	-5.1	-5.3
Real Personal Income (\$billions)					
Base Case	1,937.22	2,225.40	2,581.84	2,946.39	3,353.67
"No L.A. exports" Alternative	1,881.51	2,108.87	2,434.16	2,777.82	3,159.20
Difference	-55.70	-116.53	-147.68	-168.57	-194.48
%Difference	-2.9	-5.2	-5.7	-5.7	-5.8
Real Gross Regional Product (\$billions)					
Base Case	2,251.20	2,572.36	2,914.61	3,173.81	3,393.71
"No L.A. exports" Alternative	2,175.10	2,448.42	2,764.75	3,009.04	3,212.66
Difference	-76.10	-123.94	-149.86	-164.76	-181.05
%Difference	-3.4	-4.8	-5.1	-5.2	-5.3
State and Local Taxes (\$billions)					
Base Case	182.67	209.12	236.77	264.08	291.89
"No L.A. exports" Alternative	177.44	198.25	223.35	249.14	275.17
Difference	-5.23	-10.87	-13.41	-14.94	-16.72
%Difference	-2.9	-5.2	-5.7	-5.7	-5.7

The impact of exports to Latin America is distributed unevenly across the Region. As is shown in **Exhibit B4-16**, states such as Texas, Louisiana and Kentucky would see the greatest percentage decrease in their economic output if there were no exports to Latin America. Economic output in states such as Virginia, North Carolina, Georgia and Arkansas are relatively less dependent on exports to Latin America.

High Latin American Exports Scenario

The second simulation was based on the question: What if the High Trade scenario came to pass? This simulation involved increasing exports to Latin America by the amount identified in the "High Trade forecast scenario." The results were expressed in terms of incremental jobs, output, income, and taxes attributed to this additional growth.

As can be seen in **Exhibit B4-17**, by 2020 the High Trade scenario would have generated 1.4 million new jobs and 8.4 billion (1992 \$) in state and local government taxes – an increase of 2.7% and 2.9% respectively over the Base Case. Much of the economic pay-off of the High Trade scenario will happen over the longer term, but this profile is roughly in-line with the growth profile of the trade scenario itself.

Exhibit B4-16
EXPORTS TO LATIN AMERICA: IMPACT ON REAL GROSS REGIONAL PRODUCT IN 2020

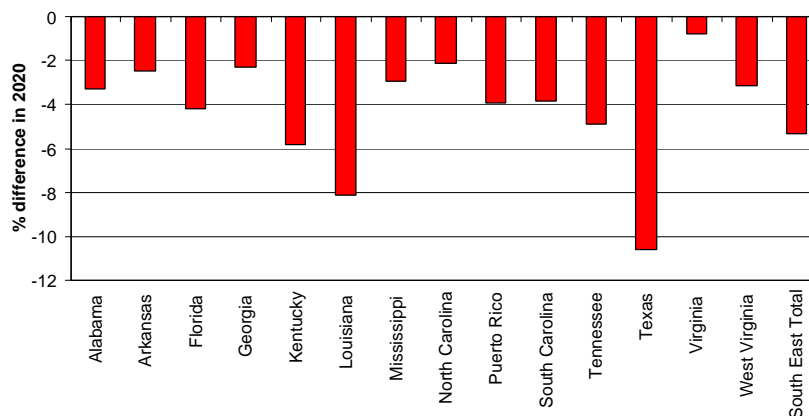


Exhibit B4-17
IMPACT OF HIGH TRADE SCENARIO ON THE
SOUTHEAST ALLIANCE REGION
What if the High Trade scenario came to pass?

	2000	2005	2010	2015	2020
Total Nonfarm Employment (thousands of jobs)					
Base Case	40,583.77	43,604.58	46,869.14	49,049.88	50,932.59
"High L.A. exports" Alternative	40,630.26	43,845.51	47,377.72	49,936.46	52,333.12
Difference	46.49	240.93	508.57	886.58	1,400.53
%Difference	0.1	0.6	1.1	1.8	2.7
Real Personal Income (\$billions)					
Base Case	1,937.22	2,225.40	2,581.84	2,946.39	3,353.67
"High L.A. exports" Alternative	1,939.00	2,237.38	2,611.16	3,002.96	3,451.69
Difference	1.79	11.98	29.32	56.57	98.02
%Difference	0.1	0.5	1.1	1.9	2.9
Real Gross Regional Product (\$billions)					
Base Case	2,251.20	2,572.36	2,914.61	3,173.81	3,393.71
"High L.A. exports" Alternative	2,253.89	2,586.81	2,946.21	3,230.91	3,486.16
Difference	2.69	14.45	31.60	57.10	92.46
%Difference	0.1	0.6	1.1	1.8	2.7
State and Local Taxes (\$billions)					
Base Case	182.67	209.12	236.77	264.08	291.89
"High L.A. exports" Alternative	182.84	210.24	239.44	269.10	300.31
Difference	0.17	1.12	2.67	5.02	8.43
%Difference	0.1	0.5	1.1	1.9	2.9