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Remarks of
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U.S. Engagement with Latin America – The Economic Dimension

Thank you for inviting me to speak with you today. It is a pleasure to be here, especially at a time when the further integration of our Hemisphere is at such a critical juncture.

I know this audience is following the progress of FTAA negotiations—or ALCA, as it is better known throughout much of our Hemisphere—very closely. As you know, the U.S. Treasury Department is highly engaged in these discussions, particularly with respect to the negotiations on trade in financial services. Improving the conditions for financial institutions to provide services throughout the Hemisphere is part of our trade liberalization agenda in the WTO, the FTAA, CAFTA, as well as bilateral agreements. Our goal is to provide banks with the right to establish a commercial presence in any partner country and have these operations treated on the same basis as any other domestic institution. In a phrase, we want trade in financial services to be based on the principle of national treatment. Under this principle, the same rules would apply to all, taking into account the specific characteristics of each country's national regulatory system. Given how highly regulated the financial sector is in every country, we are also seeking commitments to regulatory transparency, so that banks will know in advance what kind of reporting they will be required to make and can comment on proposed regulations in order to avoid any unintended consequences.

Recent economic research shows how important open, transparent financial sectors are to higher economic growth. A 2001 World Bank study found that countries with fully open financial services sectors grow 1 percent faster, on average, than other countries—for developing countries, the average increase in GDP growth was even higher. Liberalization attracts scarce capital in the form of foreign direct investment and introduces foreign competition, improving efficiency in accumulating and allocating funds. With foreign firms, comes international best practices and new technology exposure for local managers. Savers and borrowers benefit from reduced inefficiencies, which lower costs and improve service and quality. These benefits can include access to better service channels, faster access to services, better credit assessment procedures and information-gathering techniques, and a wider choice of products and vendors.

Treasury's interest in the FTAA negotiation is much broader than liberalization of trade in financial services. Historical experience is clear: reducing barriers to trade and investment is a catalyst for economic growth and development. President Bush has made free trade a central component of his global economic policy because free trade provides a foundation for raising living standards in the United States and throughout the world. The successful negotiation of the FTAA is critical to economic growth, development, and the reduction of poverty in Latin America and the Caribbean.

The FTAA negotiations are one element of the Bush Administration's agenda for raising economic growth in our Hemisphere. I would like to spend the rest of my time today discussing other parts of this agenda—in particular, the steps the Bush Administration is taking to assist countries of the region resolve and prevent economic crises, and to help promote economic development in the countries of Latin America and the Caribbean. As I believe this summary will show, we are engaged with the region on the financial side as never before, laying the basis for what we hope will be a more prosperous future for all of our citizens.

Economic Interdependence of the United States and Latin America

A few statistics tell the story of the deep economic links between the United States and Latin America and the Caribbean:

• According to the U.S. Census Bureau's Foreign Trade Statistics, the United States imported more than $200 billion in goods from Latin America and the Caribbean in 2002, and the United States exported nearly $150 billion in goods to the countries of the region. That was more than one-fifth of total U.S. exports last year.

• As of 2002, the United States had more than $270 billion invested in Latin America and the Caribbean. Just ten years ago, total U.S. investment in the region was one-third that amount.

• More than 37 million people of Hispanic origin currently reside in the United States, representing 13 percent of our population. Some have made the United States their permanent home. But millions of others work in the United States with the intention of returning to their countries.

• According to the IDB, workers sent an estimated $32 billion in remittances to their home countries in Latin America and the Caribbean in 2002. The vast majority of that came from the United States. In several countries, remittance flows equal or exceed earnings from major exports, and account for at least 10 percent of GDP in six countries in the region.

The United States has a vested interest in seeing all the countries of Latin America and the Caribbean prosper. Following the events of 9/11, there was fear that U.S. engagement in the Hemisphere would be limited to tightening border controls and tracking financial flows. The institutions that many of you represent are key allies in these efforts. Securing the global financial system from criminals and the financiers of terror is critical to ensuring the world's security.

To guard against criminal abuses, financial institutions must institute customer due diligence procedures and anti-money laundering/counter terrorist financing compliance programs in line with international standards, as established by the Basel Committee on Banking Supervision and the Financial Action Task Force. Such compliance programs include designation of compliance officers and other measures to ensure that all suspicious transactions are identified and reported to the appropriate authorities; provision of training to educate employees on current reporting obligations and procedures, as well as indicators of suspicious activity; ensuring adequate screening procedures and high standards are used when hiring staff; and, establishment of an auditing function to test the system.

These efforts are critical, to be sure. But these initiatives alone do not begin to capture the breadth of U.S. financial engagement in the region. The Bush Administration has sought to advance a range of regional and country-specific initiatives to increase economic growth and stability in the Hemisphere.

Crisis Resolution and Crisis Prevention

As we all know, the Latin America and Caribbean region has experienced serious economic difficulties during the last few years. The United States has provided critical assistance to the countries of the region to help them try to prevent the outbreak of financial crises and to weather them when they occur so that economic stability can be reestablished as quickly as possible. Let me describe a few examples.

In August 2001, the United States supported a $15 billion IMF program for Brazil to help provide a cushion for that country from the effects of the crisis in Argentina. In part due to this assistance, the situation in Brazil remained relatively stable even as Argentina slid more deeply into crisis. Later in 2002, Brazil began to experience intense financial pressures of its own in the lead-up to the presidential election last October. Bank lines to Brazil were reduced sharply, the real fell rapidly, and the government's borrowing spreads reached a high of about 2,400 basis points above U.S. Treasuries. In this context, the United States supported a $30 billion IMF program for Brazil in August 2002 to bolster stability during this period of pre-election financial market volatility and provide a solid economic policy framework for the incoming Brazilian administration.

Since taking office at the beginning of this year, the administration of President Lula has taken bold moves to strengthen Brazil's fiscal position, ensure the integrity of the inflation targeting regime and restore market confidence that Brazil is moving in the right direction. The Lula team has aggressively pursued structural reforms, such as pension and tax reform. Market confidence has improved dramatically. Brazil's borrowing spreads have fallen to less than 600 basis points over U.S. Treasuries, and the currency has strengthened more than 20 percent since the beginning of 2003. The IMF program did not create these conditions, but we think that our support for the program helped to create the space for Lula to prove the commitment of his administration to strong policies.

The United States also provided vital support to Uruguay in 2002, as that country dealt with a banking crisis that originated with the turmoil in neighboring Argentina. With banking system deposits falling rapidly and the government's borrowing spreads surging, the United States provided a $1.5 billion short-term bridge loan to Uruguay in August 2002 until expanded assistance from the IMF, World Bank, and Inter-American Development Bank could be approved. We were determined to try to avoid a collapse of the banking sector that would have put even more pressure on the currency and increased the government's debt burden. As we have seen elsewhere, the collapse of the banking sector and the payments system can turn temporary contractions into deep and prolonged depressions. Assistance from the U.S. government and the international financial institutions allowed Uruguay to end the bank run, avoid a collapse of the payments system, and resume economic growth. In the spring of 2003, Uruguay completed a highly successful market-based debt exchange (with over 90 percent participation) that substantially reduced its debt service obligations in near-term years. Economic growth in Uruguay has resumed, with real GDP increasing at an annual rate of 9 percent in the first quarter and 14 percent in the second quarter of 2003.

The United States has played an integral role in supporting efforts to reestablish economic stability and restore economic growth in Argentina. U.S. leadership was crucial to facilitating the launch of Argentina's $3 billion transitional IMF program at the beginning of this year. The purpose of the transitional program was to lock in sound fiscal and monetary policies that would allow Argentina to stabilize its economy in the period leading up to and immediately following the presidential elections in May. U.S. support for the transitional program was controversial; critics predicted that Argentina would quickly fall off-track and that the program would fail. In fact, Argentina's real GDP grew at annual rates of 10 percent and 6.5 percent in the first two quarters of 2003. This strong growth helped the government out-perform its IMF fiscal targets during the transitional program. International reserves have grown $2.5 billion since the beginning of the year, the currency has appreciated 18 percent, and the Argentine government unfroze $4 billion in bank deposits last spring without igniting a renewed crisis as many had feared.

The philosophy underlying the transitional program was that it would provide a bridge until a new presidential administration with a popular mandate came into office—an administration that could implement the broad-based economic reforms needed to lay the foundation for sustainable long-run growth in Argentina. This new three-year IMF program launched in September provides a framework for the Argentine government to tackle some of the key impediments to growth through tax reform; measures to strengthen the banking system; reform of fiscal relations between the federal government and the provinces (which played such a large role in the crisis); and the institutionalization of good monetary policy. It also requires Argentina to proceed with a debt restructuring and normalize its relations with creditors. The success of the IMF program is dependent upon the effectiveness of the Argentine government's efforts to implement it. In the area of debt negotiations, consistent with the IMF's policy on lending into arrears, we expect the Argentine government to maintain a collaborative dialogue with its creditors. This dialogue should be consistent with a viable economic program and take into account the broad financial parameters which determine the envelope of resources available for restructured claims. It should also be open to creditors' input on restructuring strategies and the design of individual instruments.

The case of Colombia provides a good example of successful crisis prevention through a combination of effective domestic policies and strong U.S. support for engagement by the international financial institutions. In September 2002, risk spreads on Colombian bonds jumped to nearly 1,100 basis points and the peso depreciated close to 20 percent, as investors focused on a possible financing gap in 2003. President Uribe took bold measures to restore market confidence, passing important tax, pension and labor market reforms and defining a strong economic program for the future. The United States supported the efforts of the international financial institutions to build on these measures through budget support by the multilateral development banks and approval of a two-year, $2 billion IMF program. The measures helped restore market confidence and Colombia was able to return to international markets, issuing a $500 million, 10-year Global bond in December 2002. Today, risk spreads for Colombia are less than 500 basis points and the currency is stable.

The United States continues its efforts to assist countries facing economic crisis. Recent events in Bolivia provide a new set of challenges. The United States has worked closely with the new administration of President Mesa and the international financial institutions to define Bolivia's immediate needs and mobilize the financial resources needed to address them. In the Dominican Republic, the United States acted to help stabilize the deteriorating financial situation in the wake of a major banking crisis last spring. Negotiation of an IMF program during the summer led to an improvement in financial conditions, though recent government actions with respect to the electricity sector have led to renewed concerns. The United States is working directly with Dominican authorities and with the IMF, World Bank, and Inter-American Development Bank to get the economic program back on track and restore stability.

I would also like to mention the leadership countries in the region have provided to promote economic stability in global capital markets. In 2002, the United States proposed the inclusion of collective action clauses in sovereign bond contracts to facilitate the resolution of sovereign debt crises when they occur. Mexico was the first country to introduce such clauses in February 2003, and was followed soon after by Brazil and Uruguay. The use of collective actions clauses represents an important step in institutionalizing a contractual method of speeding resolution of unsustainable sovereign debt situations. Thanks to the leadership provided by Mexico, Brazil, Uruguay, and others, collective action clauses are becoming the market standard—in the second quarter of 2003, new sovereign debt issuances with CACs outpaced those without CACs for the first time.

Promoting Economic Development

Our efforts to increase economic stability go hand-in-hand with the Administration's policies to increase economic growth and promote economic development in the Hemisphere.

The United States has supported economic development through a variety of channels. The first is official bilateral support. Through the United States Agency for International Development (USAID), the United States provides annual investment of more than $850 million to improve the quality of life and strengthen the economies of Latin American and Caribbean countries. These funds are being used, for example, to strengthen educational systems, address key health concerns, and improve countries' climate and capacity for trade and investment activities.

Lower-income countries in Latin America and the Caribbean will also be eligible to benefit from the Administration's major new initiative in the area of foreign aid—President Bush's proposed Millennium Challenge Account, or MCA. The MCA represents an entirely new way of providing development assistance. Under the MCA, assistance funds will be channeled to countries that are pursuing policies that have been shown to increase economic growth. The MCA selection criteria are designed to identify countries that are "ruling justly" (such as combating corruption, strengthening the rule of law, and improving civil liberties), "investing in people" (such as making investments in education and health that build human capital), and "promoting economic freedom" (such as opening markets, improving regulation, and improving the environment for private investment). The goal is to provide incentives for countries to adopt these growth-promoting policies and support countries that are laying the foundation for sustained economic growth. President Bush has proposed a 50 percent increase in U.S. official development assistance to fund the MCA—an additional $5 billion per year by FY2006.

The Treasury Department has a special role to play in the U.S. bilateral assistance effort in the region, providing technical assistance in the areas of tax collection, banking oversight, fiscal planning and other areas related to countries' fiscal and economic stability. Treasury's technical assistance program is aimed at supporting countries' own efforts to build strong institutions capable of meeting the needs of their citizens. Treasury advisors work directly with officials in finance ministries and central banks to establish best practices, increase transparency, and reinforce accountability of governments to the people they serve. Treasury maintains technical assistance programs in a dozen countries in Latin America and the Caribbean. We have full-time resident advisors in Colombia, Honduras, Nicaragua, Paraguay and Peru. I am struck by the frequency with which the finance ministers and central bank governors with whom we meet underline the value of Treasury's technical assistance program to their work.

The Bush Administration has also worked to facilitate access to another powerful source of funds for economic development: remittances from workers in the United States to their families back home in Latin America and the Caribbean. Annual remittance flows to the region are more than four times the annual flow of official development assistance from all sources and provide households with an important source of capital for consumption and investment purposes. However most remittance channels are expensive to use, with fees as high as 40 percent, and often difficult to access. To increase the efficiency of remittance services for senders and receivers and to help make these services more affordable and accessible for more people, the Treasury Department has been working with other U.S. government agencies to promote increased competition in the remittance industry.

Progress has been made in this area under the U.S.-Mexico Partnership for Prosperity, established by President Bush and President Fox to promote greater economic cooperation between our two countries. The Partnership has focused on improving the remittance channels between the United States and Mexico by promoting knowledge of the commercial opportunities presented by the remittance market, strengthening the infrastructure for cross-border payments, and expanding financial literacy programs to increase the number of remittance senders that are comfortable using banks, and other financial institutions.

These efforts have borne fruit. Several financial institutions have introduced new remittance products to Mexico. Since 1999, the average cost of sending remittances has been halved from $31 to $14 per transaction—with some well below $10—as more financial institutions have entered the remittance market. Treasury's "First Accounts" program has helped bring more migrant workers into the financial system by providing $8 million to financial institutions and community-based organizations to foster financial literacy among underserved communities in the United States. Remittances from the United States to Mexico jumped 30 percent during the first half of this year versus the same period in 2002, and are expected to reach $12 billion for all of 2003. Households are using these savings to increase investment in education, and on food and health care for their families.

Under the Partnership, the Federal Reserve Bank of Atlanta and the Bank of Mexico have worked together to strengthen the financial infrastructure for payments between the United States and Mexico by establishing a cross-border automated clearing house (ACH) system that will enable any bank in the United States to transfer money to any bank in Mexico at a very low rate. I am pleased to announce that the ACH is scheduled to become operational for all payments from the United States to Mexico starting in December. The ACH represents a powerful tool for increasing the use of banks for remittances and commercial payments since it promises to substantially reduce the cost of such transfers, particularly for smaller banks. I strongly encourage those here today to look into the new commercial opportunities provided by the ACH and contact the Federal Reserve Bank of Atlanta to find out how to sign up for the service.

The U.S.-Mexico Partnership for Prosperity is one example of the bilateral and multilateral dialogues the Bush Administration has launched to advance policies that increase economic growth in the Hemisphere. Secretary Snow's first foreign trip—aside from travel associated with the regular meetings of the G-7—was to Brazil, Colombia, and Ecuador to get a first-hand look at the steps these governments are taking to strengthen their economies. At the U.S.-Brazil Presidential Summit in June 2003, President Bush and President Lula announced the formation of the U.S.-Brazil Group for Growth, which held its inaugural session in August. Treasury has also initiated a series of meetings with different groupings of hemispheric finance ministers, beginning with a meeting of all the finance ministers of the Western Hemisphere in September 2002 and continuing with Secretary Snow's meeting with the Central American finance ministers in April 2003. We plan to hold another such meeting with finance ministers from some South American countries in the upcoming months.

Conclusion

Some have expressed the fear that the recent political and economic turbulence in Latin America presages a turn away from market-oriented economic reform in the region. In considering this view, I find it worthwhile to look at the example of Brazil. President Lula is clearly a leader with an ambitious vision for social progress in Brazil, articulated so eloquently in his inauguration speech. His words then—and the reforms that his administration has pursued since—recognized the inextricable link between the achievement of macroeconomic stability and economic growth, on the one hand, and the achievement of social objectives such as ending hunger, on the other. The Lula administration's effective implementation of economic policy to date enhances its capacity to focus attention and resources on the critical work of improving social conditions for all Brazilians. One might contrast Brazil's situation with that of Venezuela, where the turn away from market-oriented policies has resulted in a sharp economic contraction and intensification of social pressures.

Political leaders in the region have the ultimate responsibility for building the domestic political consensus needed to support the adoption and implementation of policies that promote economic growth. It is a task that requires constant attention to convincing the public of the centrality of good economic policies to the achievement of higher living standards, less poverty, and a better life for all citizens.

The United States stands ready to support the countries of the region in this endeavor.

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