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STATEMENT BY  
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UNDER SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS  
BEFORE THE SUBCOMMITTEES ON THE WESTERN HEMISPHERE,  
HUMAN RIGHTS AND INTERNATIONAL ORGANIZATIONS,  
AND INTERNATIONAL ECONOMIC POLICY AND TRADE  
COMMITTEE ON FOREIGN AFFAIRS  
U.S. HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Subcommittees:

I want to thank you for giving me the opportunity today to discuss with you President Bush's new "Enterprise for the Americas" initiative.

The President's announcement on June 27 followed a three month review led by Secretary Brady for the Economic Policy Council of U.S. economic policy toward Latin America and the Caribbean. This review concluded that decisive action was necessary to build a stronger and more comprehensive economic partnership with our neighbors -- in order to support the process of democratic change and growing economic realism in many countries.

The President's "Enterprise for the Americas" initiative calls for action on trade, investment, debt, and the environment. Through a broad-based trade program, the initiative defines the vision and sets out the challenge for movement toward a broad system of free and fair trade within the hemisphere. Through a range of investment-related measures, the initiative will also promote capital flows, reduce debt burdens, and improve the environment. This initiative will be in addition to existing programs for the region.

A Broad Program to Expand Trade

Barriers to trade represent a serious obstacle to growth. Trade within our hemisphere has lagged the pace of growth in world trade during the 1980's. Limited trade opportunities have constrained the growth of the hemisphere's most competitive industries and the spawning of new companies, products, and services. To achieve broader economic growth in all our economies, we must expand the potential for trade.

The successful completion of the Uruguay Round is the most effective means of promoting long-term trade growth in Latin America and the Caribbean and advancing the region's integration into the global trading system. The negotiation of reciprocal reductions in trade barriers, stronger trade rules, and expansion of these rules into currently ungoverned areas can provide important benefits to all countries. In addition, many countries of the region have an especially important stake in achieving a meaningful agreement on agriculture.

Ambassador Hills and the Administration as a whole have been working closely with Latin American and Caribbean countries throughout the Uruguay Round talks. As part of the President's new initiative, we will now be taking special steps to address the needs of our neighbors. In particular, we will analyze U.S. trade flows to identify products of special interest to Latin American and Caribbean countries and will initiate offers to cut these tariffs without waiting for these countries to make requests.

Looking beyond the conclusion of the Uruguay Round, the "Enterprise for the Americas" initiative envisions a hemisphere-wide open trade system that links all of the Americas -- North, Central, South, and the Caribbean. To move toward this long-term goal, the initiative provides for the negotiation of free trade agreements with other markets in Latin America and the Caribbean -- particularly with groups of countries that have associated for the purposes of trade liberalization. As we have seen in the case of Canada, these agreements can offer significant and lasting benefits for both sides.

These free trade agreements should be comprehensive -- providing for the free flow of goods, services, and investment between participants. They should also ensure the protection of intellectual property rights and provide for the fair and expeditious settlement of disputes. The countries involved must demonstrate a commitment to economic reform, including trade and investment liberalization and sound macroeconomic policies.

In addition, the United States is willing to enter into framework agreements, like those already concluded with Mexico and Bolivia. Such agreements give us the opportunity to negotiate with individual countries the step-by-step elimination of specific trade barriers and problems. They can also serve to set out general principles of trade relations between countries, to establish a broad mechanism for discussing problems, and to facilitate approaches to sectoral issues.

By opening their borders to trade, the nations of the Americas can all boost economic activity -- creating more jobs, higher incomes, and new opportunities to expand growth. Each of the steps I have discussed -- a successfully completed Uruguay Round, the negotiation of bilateral framework agreements, and the achievement of Free Trade Agreements, beginning with Mexico --

will help move us toward a long-term vision of a truly open hemispheric trading system.

### Mexican-U.S. Free Trade Agreement

A Free Trade Agreement (FTA) between the United States and Mexico would be a giant step forward in the process of eliminating barriers to trade and investment in the Hemisphere. In accordance with the June 11 statement by Presidents Bush and Salinas, the Administration is now actively engaged in the consultations and preparatory work needed to initiate talks. Immediately following the announcement, USTR began coordinating inter-agency preparation of profiles of key FTA subjects and consulting with Congress and the private sector.

An FTA with Mexico would build on the close trade and investment links between our countries and the excellent progress Mexico has made in liberalizing its trade regime. Mexico is not only our third largest trading partner, it is also one of our fastest growing export markets. Our exports to Mexico totalled \$25 billion in 1989, after having grown by an average of 18 percent annually from 1983 to 1989. U.S. imports from Mexico grew more slowly, averaging 8 percent annually.

Mexico has demonstrated its commitment to open markets, not just in rhetoric but by action. Its tariff and nontariff barriers have been slashed since 1985.

- ◆ Mexico applies no tariff higher than 20 percent, an achievement that few industrial countries can match. The maximum tariff in 1985 was 100 percent.
- ◆ Its average tariff is about 10 percent, down from an average of 25 percent in 1985.
- ◆ Only 7 percent of U.S. exports to Mexico face the nontariff barrier of import licensing requirements, compared to 100 percent in 1983.

We have an historic opportunity to make these reforms permanent, remove remaining barriers to trade in goods, and guarantee that Mexican markets are open to U.S. exporters.

FTA negotiations also provide an opportunity to address investment issues of interest to U.S. companies. Mexico has made important strides in liberalizing its investment regime, and we intend to build on this progress to ensure that U.S. companies can invest in the Mexican market.

The talks can serve as an effective means to address barriers to services trade and investment in key sectors like financial services. Mexico has recently announced legislation to privatize its banking system. We need to ensure that the

doors are opened to U.S. banks and securities firms as well as to private Mexican firms.

Let me emphasize that the long-term benefits of an FTA are not just in the form of increased U.S. exports or returns on foreign investment. Equally important, an FTA will contribute substantially to Mexican growth and to the increased wages and lower capital costs which accompany such growth. In the long term, increased income levels in Mexico are essential to eliminating bilateral trade and other frictions.

### Increasing Investment in Latin America and the Caribbean

In a world short of resources, financing economic growth depends on unlocking the potential for domestic and foreign investment in Latin America and the Caribbean.

The competition today for capital is particularly fierce. More and more countries are building market economies which will appeal to both domestic and foreign investors. To increase the flow of investment resources from home and abroad, Latin American and Caribbean countries must turn around the conditions that have, over the last decade, led investors to look away from the region to other markets -- a diversion of capital flows that led to less investment and more debt.

Economic policy reform -- particularly liberalization of investment regimes -- is a vital part of attracting resources, including the repatriation of flight capital. To move countries toward action in this area and to help them attract indispensable capital, the "Enterprise for the Americas" initiative contemplates the establishment of two new vehicles in the Inter-American Development Bank.

First, we propose to work with the regional governments and the President of the Inter-American Development Bank (IDB) to develop a new investment sector loan program within the IDB. Through such sector loans, countries undertaking necessary reforms could receive both technical advice and financial support for liberalization of investment regimes and privatization efforts. This program will be undertaken over the next two years in conjunction with the World Bank while the IDB gains experience in policy-based lending activities.

In a parallel effort, a five-year multilateral investment fund administered by the IDB will be established to support the efforts of Latin American and Caribbean nations to carry out investment reforms already agreed as part of IDB sector loans. Financing from the fund, which could be provided on a grant basis, will be targeted to provide technical assistance to help carry out specific privatization and other investment regime liberalization efforts. The fund could also support human capital development by providing training and education in financial and investment-related areas and help build business

infrastructure (e.g., telecommunications). We would expect that the Fund would place particular emphasis on Central America and the Caribbean.

We envision that this \$1.5 billion fund could provide up to \$300 million annually for increased support of countries' efforts to reform their investment regimes. We will be discussing the framework for creating such a fund with the President and other members of the Inter-American Development Bank. We will also work closely with Congress concerning establishment of the five-year fund and U.S. contributions of \$100 million annually. We have already begun to discuss with other industrial countries their participation in the Fund and feel confident of their support. I have been asked by the Finance Ministers of the Group of Seven to consult with their Deputies in pursuing this matter.

#### Easing Debt Burdens

To support further the process of investment reform, we intend to build on the progress already being made in addressing the debt problems of the region. Heavy debt burdens themselves have a tremendous impact on overall confidence in Latin American and Caribbean economies. For this reason, we initiated last year a major international effort to reduce commercial bank debt burdens. As we have already seen in cases such as Mexico and Chile, reduced debt servicing burdens, in combination with strong domestic economic reforms, can have a profound impact on capital flows and confidence.

To support this process, we will encourage the IDB to join the IMF and World Bank in supporting debt and debt service reduction transactions negotiated by Latin American and Caribbean countries with commercial banks under the debt strategy. As in the IMF and World Bank, the availability of IDB resources will be directly linked to economic reform efforts.

We also recognize that many countries in the region are burdened by large official bilateral debt, which has been increasingly difficult to service on a timely basis. In many countries, U.S. bilateral obligations account for a significant portion of such debt. To address this problem, the President has proposed to take steps to reduce the burden of debt owed to the U.S. Government through one special Facility. The Administration is drafting legislation and implementation plans for this and other aspects of the initiative.

Action will be taken on a case-by-case basis for those countries in the region which adopt strong economic reform programs in conjunction with the IMF and World Bank, are pursuing comprehensive investment reforms with the Inter-American Development Bank or other multilateral institutions, and have concluded financing packages with their commercial banks including debt and debt service reduction, as appropriate.

We will pursue different approaches to concessional and commercial-type debt owed to the United States Government. First, we propose to reduce and restructure the concessional AID and PL-480 debt of eligible countries. Outstanding concessional AID and PL-480 debt totals \$7 billion for the Latin American and Caribbean region. We will undertake case-by-case reduction of this debt -- while preserving necessary reflows to offset current spending in these and other programs. Reduced principal obligations would be repaid in annual installments over several years, depending on the individual circumstances of each country. Interest payments on the restructured debt would be made in local currency at an agreed concessional rate and would be deposited in a trust fund for each country to support local environmental projects.

We expect this program to produce substantial debt reduction on U.S. loans, particularly for the smaller countries of the region and to generate local currency resources to support local environmental projects. At the same time, the effect of this proposal would not reduce new flows of U.S. foreign assistance to the region.

We also propose to sell a portion of outstanding commercial loans held by the United States Export-Import Bank and the Commodity Credit Corporation in order to facilitate foreign investment and to fund action in support of the environment. Interested investors or environmental groups would be able to purchase the Ex-Im and CCC obligations of those countries that have set up or expanded specific debt/equity or debt/nature swap programs.

Reduction of official debt burdens can produce broad benefits for Latin America and the Caribbean, provided countries undertake vital economic reforms. Among these benefits will be an increased ability to attract new resource flows and encourage the return of capital held by their nationals overseas. If economic reforms are sustained, this capital will provide a powerful stimulant for growth.

### Preserving the Environment

To underscore our commitment to sustainable natural resource management as a key component of a hemispheric growth strategy, the President has made dedication of resources to the environment an important part of the "Enterprise for the Americas" initiative. We hope to help channel resources to environmental programs in Latin American and the Caribbean through the sale of a portion of Ex-Im Bank and CCC loans. In addition, we propose to provide funding for the environment by setting aside in trust funds the local currency received as interest payments on restructured bilateral concessional loans.

The environmental trust funds will provide an ongoing mechanism for financing environmental projects in Latin America and the Caribbean. We will negotiate agreements with individual

countries to use these financial resources to provide support for lasting projects and programs to conserve natural resources and protect the environment.

### Implementing a Comprehensive Initiative

As I am sure you all understand, the various provisions of the "Enterprise for the Americas" initiative will require the development of extensive implementation plans. We are working on these details to facilitate timely operation of the initiative. Inter-agency discussion will be required to establish a framework for moving forward.

The Administration will seek legislative authority this year to implement many of the provisions of the "Enterprise for the Americas" initiative. We will want to consult and work cooperatively with you in Congress to bring to fruition this new effort to strengthen our ties with and promote growth in Latin America and the Caribbean.

One of the important features of the President's initiative is the combining of trade, investment, debt, and environmental measures into a unified approach. It will be important to implement the initiative as a whole in order to preserve its potential to promote sustainable growth and to avoid letting it fragment into independent, inefficient components.

One factor which we must take into account in this context is the status of bills currently before the Congress which contemplate similar action in some of the same areas. Many of these bills represent innovative approaches to some of the same problems the President has addressed in his initiative.

You have asked me today to comment specifically on two bills now before your committee. Both H.R. 5088 (AID and PL-480 debts) and H.R. 5196 (AID debts) contemplate waiving countries' obligations to pay the U.S. Government if those countries make funds available in local currency to support environmental or developmental aims. The intent of these bills parallels many of the Administration's goals in the "Enterprise for the Americas" initiative. I would like to raise several issues, however.

- ◆ We feel strongly that economic reforms, particularly in the investment area, must precede any step to reduce debt burdens, since no amount of debt forgiveness can produce lasting economic growth without sound policies. Moreover, we believe that by rewarding performing countries we can establish incentives for important economic reforms.
- ◆ We are not prepared to provide complete forgiveness of obligations to repay the U.S. government. While such an approach may appear to maximize resources dedicated to the environment or development, it could have a more sizable impact on ongoing U.S. programs. Furthermore, we believe

it is preferable for the U.S. government to adjust the amount of relief provided according to each country's circumstances.

- ◆ H.R. 5088 makes specific decisions about the exchange of local currency bonds for debt relief and about the management of trusts established to receive these bonds. We believe it is premature to make such decisions and would want to discuss these issues in order to avoid undue restrictions on the operation of debt restructuring programs.
- ◆ H.R. 5196 would allow the release of local currency resources to fund a broad range of development programs and would limit action to the Caribbean. We have focused the local currency payments to be made available through the President's initiative on the environment. We visualize that this program will be available throughout the region as part of the President's comprehensive initiative for the Hemisphere.

I recognize that these and other bills signal similarities in the intent of the Administration and Congress. I want to note in particular that we agree that it will be important to consult with non-governmental organizations regarding this program.

We do not believe, however, that these bills currently contain the authority we may need to implement all aspects of the President's initiative related to debt. For instance, it may be advisable to provide explicit authority for the sale of a portion of Ex-Im Bank and CCC loans in connection with the President's initiative.

I am confident that through close consultation, the Administration and Congress can accomplish these goals and establish a comprehensive program that will serve the interests of the United States and support our neighbors' efforts to expand trade, attract capital, and achieve sustainable growth. I look forward to working with you on specific legislative mechanisms.

### Conclusion

President Bush has articulated a challenge for the nations of the Americas -- to secure the dream of freedom, democracy, and economic prosperity for all of their people.

Like all successful efforts among neighbors, first steps begin at home, but success is assured by many hands working together. We will look to our neighbors to commit themselves to work toward our common goals, but we must be prepared ourselves to respond to their efforts. I hope we can count on your support.