The Enterprise for the Americas Initiative: A Blueprint for Economic Expansion from Alaska to Antarctica

By David C. Mulford

Today I want to spend a few minutes talking with you about the Enterprise for the Americas Initiative. Effectively, I want to tell you why EAI is already working, and how we can make it the most significant foreign policy and economic policy initiative for this hemisphere in the last half century.

EAI is already a major strategic success. You know this if you have recently visited Latin America—you do not if you read the U.S. press. Whether EAI is truly historic, however, will depend on whether the Administration, the Congress, and the governments of Latin America press forward with its full implementation. It sounds simple, but of course, it is not, because the Enterprise Initiative is a substantive initiative, one that is complex, and with many moving parts. Everyone here, I would imagine, knows the general outline:

- ✓ **a vision of the free trade zone** from the tip of Alaska to the tip of South America;
- ✓ **reform of investment regimes** to increase domestic investment, encourage the return of capital flight, and make countries competitive to attract direct investment;
- ✓ **reduction of official bilateral debt**, to remove the so-called "debt-overhang." This of course is especially important to the small countries of the region, whom we are trying to encourage to restructure their balance sheets so they may live off equity, and not just off debt;
- ✓ **grass roots environmental programs**, derived from the debt reduction; and finally,
- ✓ **the multilateral investment fund**, to support the rapid transformation of investment regimes that we are seeking.

I want to come back to these points substantively during the course of my remarks, but let me just turn for a moment to the bigger picture.

The Enterprise Initiative is not — I will repeat that — not an aid program. Unfortunately, it finds itself in the Foreign Assistance Bill, treated in the process as if it were an aid program. Like the Brady Plan, the Enterprise Initiative is based on recognizing reality, and using political and market forces to promote sustained economic recovery. What is that reality?

First, it is that Latin America cannot solve the problem of sustained economic recovery, which is so much in our national interest, without addressing trade, investment, and debt together in a single policy framework. That is what the Enterprise Initiative does—and if we implement it, it will work for both the U.S. and Latin America.

The fact is that genuine economic reform is already underway in Latin America, in Central America, and in the Caribbean. We need to give Latins credit for this remarkable effort, which, by comparison makes progress in Eastern Europe and the Soviet Union pale. After years of stag-

---

The Honorable David C. Mulford is Under Secretary of the Treasury for International Affairs.

He spoke at The Heritage Foundation on March 4, 1992.

ISSN 0272-1155.

nation and decline, Latins are reforming their economies, following the democratization of their countries. They need our enlightened self-interest in their affairs much more than they need our economic aid.

The second reality is that we, the United States, need Latin America's economic prosperity and political well-being now and increasingly, as the world gets more and more competitive. Here are some simple figures which support this proposition.

It used to be that Latin America simply followed changes in the United States' economy. That is no longer the case. Events in Latin America now can have a positive impact on our growth. The U.S. economy increasingly depends on exports. Over 40 percent of U.S. gross national product (GNP) has derived from increased exports over the past four years. Latin America is our fastest growing regional market—12 percent annual growth in the past five years. One dollar out of every seven dollars of exports from the United States goes to Latin America. And we are competitive there. The United States has 57 percent as its share of industrial country exports of goods to Latin America, versus 11 percent for Japan. And we have a higher share in the services market. So here is a market where we are already established, we are already competitive.

Every $1 billion of exports to Latin America, by the Commerce Department's estimate, creates 20,000 U.S. export-related jobs. Add to these points the fact that our hemisphere has a total GNP of $6.5 trillion, a total population of 700 million people, democratic governments in virtually every country, a common heritage, a limited number of languages, and market economies virtually throughout the area—not perfect market economies, certainly not by your standards—but market economies by the standards we are looking at in other parts of the world.

Just so that you can compare these figures by taking a look at the European Community (EC), for example, its total GNP is about $5 trillion, and total population is about 300 million.

Direct U.S. Interest. In short, what is good for Latin America economically today is good for the United States, and vice versa. In each major area of Enterprise thinking, Latin America is being transformed, and so are its policies, We of course have a direct interest in this. So let me turn briefly to each of the policy areas, and make some remarks on those by way of elaboration.

The Enterprise Initiative has already encouraged a transformation of thinking about trade, about future trade potentials, about more open trade regimes and more market-oriented economies. This is reflected already in the different policies on tariff and non-tariff barriers, and in the new positive approach to regional and multilateral trade arrangements, which are beginning to emerge rather soon in fact after the appearance of the Enterprise Initiative. In regional trade developments, for example, we have seen the following things happening:

- ☞ The Southern Cone countries have come together—Brazil, Argentina, Uruguay, Paraguay —to have a common market by 1995. And in the longer term, when they have accomplished policy coordination and exchange rate policies that are sustainable, their aim is to turn around and negotiate free trade arrangements with the United States.

- ☞ In the last year, there has been swift progress towards an Andean Pact common market. Here, they expect to have something in place by the end of 1992.

- ☞ In Central America, where I visited about ten days ago, there is a strong reaffirmation in the direction of a new commitment to regional integration, and an aim to have a common external tariff by 1997. I think this is bound to accelerate, because the views that I heard down there were ones of concern about NAFTA, and how Central America can adjust to some of the challenges that they see coming. So we may see even more rapid progress, but the point is that the whole process towards integration, in my opinion, has been reinforced. The Caribbean Economic Community (CARICOM) is also showing signs of interest, and already has negotiated, as I am sure all of you know, a framework agreement for trade and investment with the United States.

- ☞ In the General Agreement on Tariffs and Trade (GATT), there are five new Latin American members and four others in the process of joining or having announced their intention to apply. I think it is fair to say that Latin American countries in general over the past two years have begun to show more responsible attitudes within the Uruguay Round. Certainly in some country cases that has been true.

Individual countries have made dramatic changes in their tariff and non-tariff structures. These things are hard to follow unless you are a specialist, but let me just summarize a few of the highlights:

- ✗ After joining the GATT in 1986, for example, Mexico has reduced its maximum tariff from 100 percent to 20 percent, its average tariffs from 20 percent to 10 percent, and has virtually eliminated all non-tariff barriers.
- ✗ In Peru, the average tariff has fallen from 80 percent to 17 percent since 1990.
- ✗ In Colombia, the average duties are between zero and 15 percent.
- ✗ As part of the Menem administration's market reform efforts in Argentina, there have been substantial reductions in trade barriers there in the past two years. The current tariff schedule ranges from zero to 22 percent compared to a band of 15 to 53 percent in 1989.
- ✗ Brazil has eliminated discretionary licensing, quickening the tariff reform program. And I am sure there is more to come in Brazil as they now have an International Monetary Fund (IMF) program and have begun negotiating their debt arrangements with the banks.

The North America Free Trade Agreement, of course, is one of the big tests for the Enterprise Initiative. The fact that we are having a NAFTA negotiation is an important reflection of the changing attitudes toward trade throughout the hemisphere. If our negotiations with Mexico are successful, they could serve as precedents for future free trade agreements in the Enterprise Initiative. This impulse is already visible in the rapid establishment of trade and investment framework agreements. You remember that Mexico established such an agreement with us as recently as 1987 as a predecessor to the present negotiation. Since the Enterprise Initiative was launched in June of 1990, the U.S. has entered into fourteen new bilateral trade framework agreements and two multilateral framework agreements, covering a total of 31 Latin American countries. Currently, there are only three countries in the region which are not under one of these agreements with the United States. And the supporting groups which meet under these agreements have been created and have begun to carry out their first meetings and consultations.

Negotiations between the United States, Mexico, and Canada are already challenging many countries in the region to be more competitive. I found in Central America, for example, much concern about NAFTA, and what this would do to Central America. But I also found a response to the competitive challenge and a view that they needed to work out their own destiny and think about the ways and means of associating themselves, in due course, with whatever emerges from NAFTA. Whether they do that by themselves, or with others, or with CARICOM countries, there is clearly a hotbed of reflection among thoughtful people on that subject. So NAFTA is not all negative for them, and I think we may see this kind of thinking develop very quickly if NAFTA itself is completed and has a successful passage through Congress.

Canada and Mexico, of course, are our first and third largest trading partners. In 1991, U.S. exports to Mexico outpaced import growth by five to one, creating a trade surplus for the United States that year of $1.7 billion to $1.8 billion. Stronger investment and trade linkages will continue to improve our export performance to Mexico, and that is good for growth in the United States and good for jobs. In case you are being told that NAFTA will export U.S. jobs, bear in mind that U.S.-owned assembly-line operations in Mexico obtain over 90 percent of their components and machinery from the United States. And, in fact, 70 percent of all of Mexico's imports come from the United States.

Locking in Mexico. NAFTA, if it succeeds, will also perform another important function: it will lock in the very impressive free market policies that President Carlos Salinas de Gortari has used to turn Mexico around so dramatically in the past few years. If our neighbors are open and growing, including Mexico and all the other countries to the South, it is positive, it helps the United States and serves our interests in the entire hemisphere. You can make it complicated, but to me it is just that simple. And that fact can be broadened to include the whole region. The process will take many years, but as a vision, in my opinion, it is fundamentally sound.

Turning to investment under the Enterprise Initiative: here is an area where dramatic developments are clearly visible. For example, private capital flows to Latin America have increased substantially in 1991, quite surprisingly, to an estimated $40 billion, up from $13 billion from 1990. And note the composition of that amount: a little over $15 billion is in borrowings, private placements, debt issues and public markets; $14 billion is in the form of direct investment; and about $6.5 billion in portfolio investment. This is a completely different pattern from just two years ago.

These flows reflect renewed access to both the U.S. and the European capital markets; moreover, they reflect investor choice in the world capital sweepstakes. Portfolio investments particularly reflect the new interest in a country's funds and an ability to sell equity in the international market. It is a highly significant development in the region. The figure also contains some of the returning flight capital that is so difficult to measure, but that we know is on the move back. Direct investment, a smaller portion but still a respectable amount, reflects the changing investment climate in the region as well as the participation by international investors in the privatization that so strongly is underway.

If you are interested in the distribution of the $40 billion, it is something like this: $16 billion for Mexico. And here, it is interesting to note that the foreign direct investment portion of that number was about $5.5 billion. I can remember in the mid-eighties, and I think as late as 1987 and 1988, being concerned about Mexico getting only up to $500 million of foreign direct investment in these years. This figure now is $5.5 billion.

For Brazil, the figure is $11.6 billion of the $40 billion; Chile is $1.7 billion; Venezuela, $4.8 billion; Argentina, $5.1 billion; and the $6 billion balance spread widely among the smaller countries. As I have said, these figures would have been unimaginable just two years ago.

Large-Scale Privatization. In addition, privatization has been sweeping the region as a means of reducing subsidies and state budgets, reducing debt, raising revenues, and placing industries on a competitive footing.

Chile led the way in the mid-1980s by selling 450 state-owned companies. Mexico also was very active in the latter part of the decade, reducing officially its state-owned enterprises from 1,200 in 1982 down to 250 by the end of 1991. Since the end of 1988, the government has received, by its estimate, approximately $14 billion in sales from privatizations, the most successful of which was Telfonos de Mexico (TELMEX), Mexico's public phone system.

Argentina, as well, has used large-scale privatizations linked with debt-reduction to reduce its external stock of debt by $7 billion over a period of about a year and a half. Major accomplishments there include the privatization of their state-owned phone system and airlines.

Brazil now has begun its privatization program after a series of false starts and delays, by launching four operations which were completed in 1991, netting Brazil about $1.7 billion. That included the sale of the largest steel company in South America. There are an additional 23 companies scheduled for privatization in 1992. These days, Brazil is doing what it says it will do.

New Leadership. Let me turn to the Inter-American Development Bank (IDB), because the IDB has an important role in the Enterprise Initiative. The IDB we are talking about is a reformed IDB and a replenished IDB. In that order. They have new people, they have a good leader, the Board is populated now by people who are much more closely in touch with their governments. This makes operations with the bank much easier, much more constructive from our standpoint.

A special role was created for the IDB in the Enterprise Initiative because the IDB is a Latin American institution. We have a strong influence in the IDB, but they have the majority vote. As such, the IDB provided the ideal place to locate the creation of consensus necessary to establish the criteria for open investment regimes in this area. Because, after all, there is a long, often troubled history of North-South investment. So to lay a basis for a successful opening of these markets, we have agreed to work together to create the criteria for an open investment regime so they are acceptable and become reality. That was the purpose of the decision to use the IDB.

The result is that in this changing investment climate the IDB has been playing a major role in its new sector-lending program, particularly, its investment sector-lending program. Four countries last year concluded such agreements: Chile, Bolivia, Jamaica and Colombia, and three of them conducted debt reduction agreements with the United States on their official bilateral debts immediately after those agreements were reached. From the standpoint of people with an interest in the content of these programs, let me just say that in Chile, the centerpiece was the opening of the mining sector to joint ventures; in Jamaica, complete liberalization of the foreign exchange regime, which is now operating completely freely; in Bolivia, opening mining, hydrocarbons and transportation sectors; and in Colombia, the substantial liberalization and opening of the financial sector.

Discussions are underway with ten other countries, and we expect seven of these countries will bring their deals for investment liberalization to the Board of the IBD in 1992. We have also signed bilateral investment treaties with a number of countries, most recently with Argentina, and negotiations are underway with Jamaica, Costa Rica, Uruguay, Peru, Bolivia, and soon will begin with Venezuela and Paraguay.

And I would like to say that the CALVO doctrine, which in my experience has been the dominating anti-investment force of the region, is clearly dying, as countries recognize that credible arrangements for international arbitration are an essential condition of being competitive for international investment.

Finally, a word on the Multilateral Investment Fund, which is designed to support the liberalization of the investment process. The MIF, as we call it, was signed into existence a couple of weeks ago. It has been fully negotiated; it has a charter; it has commitments of $1.3 billion dollars. And unlike a lot of other programs and institutions, it has a ten-year life, and that is important. In that period, its aim is to make a sustained attempt at opening investment regimes. It has three windows:

1) **Technical assistance** - Example A: If a small country wants to privatize industry, it probably needs technical assistance from outside to carry out those complex financial operations. Example B: a smaller country that wants to develop an internal, credible market for savings, a money market, for example, will need technical assistance and local

talent trained to support that development. That is one of the ways you keep domestic savings invested at home.

2) **Assistance for human resource development,** which will be in the form of grants. They will be used, for example, where privatization is taking place and people are unemployed by that process, thus weakening the government's will to carry out the privatization. There will be grants to support the retraining and re-locating of those people, and likewise the training of human talent in areas such as accounting, banking, finance, and marketing, to contribute to the process of preparing for the development of local markets.

3) **Assistance in the form of direct equity and loan capital** into small-scale enterprises, particularly in the smaller countries.

Now I would like to turn to the last element of the Enterprise Initiative, debt reduction.

There is not a large amount of official, U.S. bilateral debt in Latin America. There are a number of people on the Hill who always point this out to me: that there is $300 to $400 billion of debt, and only $12 billion of U.S. debt. What they miss is its strategic location: in the medium- and smaller-size countries, which lay beyond the reach of the Brady Plan when it was conceived. This debt reduction is important for investment both politically and psychologically. The debt reduction program also has the environmental feature which increases its importance: 1) because environment is important. Grass roots projects in these countries are important in and of themselves; and 2) because debt-reduction with an environmental element broadens the political support for debt reduction.

Turning the Corner. In my opinion we have turned the corner on the debt problem in Latin America. There is still a lot of debris around, but in the future, countries that fail economically will not be able to blame the debt problem. They will have to look to their own policies. The Brady Plan marks the turning point, hard as it was for some to see at the time. The Brady Plan worked because it used markets. Our critics forgot the power of markets. And the banks, at first, did not like the market they saw. In the end, the Brady Plan was a better choice for them than the cold turkey market that was staring us all in the face in 1988.

The Enterprise Initiative goes further, to the whole continent, in the ways that I have already described. It reaches beyond to the smaller countries targeted by the Enterprise Initiative. Debt reduction is not just a question of the reduction of commercial bank debt, or even just the reduction of nominal values of debt, though some $30 billion equivalent has been eliminated through various medium-term bank agreements of commercial bank debt. Rather, it is the restructuring of the debt to reduce payments and broaden its appeal and usability in markets that has been important. We cannot ignore the tremendous psychological importance of debt reduction tied to reform, which took place for example, in both Mexico and Chile.

Look at the market price of Latin American bank debt. All up dramatically. Salomon Brothers' Brady Bond Index has out-performed all other indices except junk bonds. And Brady Bonds are not junk. Through the Brady Bonds a whole new market has been developed to replace the bank loan market. The effect over time will be to make borrowers and lenders more responsible and subject to the disciplines of the markets.

Over half of the biggest debtors in the original group of sixteen have been treated now, under the Brady Plan, and when Argentina, Brazil, Ecuador, and Poland sign their agreements, 94 percent of all the outstanding commercial bank debt of that large group of middle-income debtors will have been treated.

In the field of U.S. bilateral debt, as contained in the Enterprise Initiative, the U.S. has already treated a quarter of the concessional debt of Latin American and Caribbean countries, to the tune of about $1.5 billion through the Enterprise Initiative and legislated programs for the poorest countries. This debt reduction, however, will most help the smallest countries. In the case of El Salvador, the reduction will be in the neighborhood of two-thirds of their bilateral debt. In Jamaica and Belize, about one-third; in Bolivia and the Dominican Republic, by about 27 percent. Not small numbers. This will be supported by the Multilateral Investment Fund, and also, in many cases, by 936 money for smaller countries to use for investment purposes. The resulting local currency that flows from this process will enhance environmental programs.

Before closing, I would like to mention Central America, because it is such a dramatic example of where the Enterprise Initiative can perform. Two years ago, Central America was a disaster area. There were arrearages to commercial banks and international institutions in four countries; so, in effect, they were entirely cut off from outside sources of capital. On my recent visit to Central America, I found it on the brink of being able to exploit the Enterprise Initiative. A new group of democratically elected leaders and outstanding economic teams, as good as any in Latin America, are now in place. In the region, budget deficits have been trimmed over the past one to two years, very substantially. Tight monetary policies prevail. Inflation rates have fallen sharply. Capital is being repatriated and all the countries except Nicaragua are experiencing positive growth.

Over the last two years, Central American countries eliminated their external arrears of approximately $1.3 billion among four countries. Take El Salvador as an example: in the last year its growth is running at about 3 percent. Private capital inflows totalled $700 million over the past year. The state-owned banks are being privatized; two already are, with four more to follow this year. And there is an IDB investment sector loan nearing the completion of negotiation. We expect that to be signed sometime in the early summer.

This summer El Salvador should qualify for debt reduction if the Congress provides the authorization and appropriations to support that process. Debt reduction for El Salvador would eliminate $472 million of its $820 million of bilateral official debt. There would be a 60 percent cut in the stock of official bilateral debt and approximately a 25 percent cut in its entire stock of debt—a highly impressive prospect. In short, this transaction would transform El Salvador's balance sheet. Not a bad start for a national reconstruction program.

In closing, what do we need to succeed?

1) **We need the appropriations for FY 1992 and FY 1993 to finance debt reduction that is being earned today in Latin America.**

2) **We need appropriations for the Multilateral Investment Fund. We have already raised the $800 million from other countries to match our $500 million to go in over the next five years. Unfortunately, until our appropriations are met, the other money cannot go into the fund.**

3) **Finally, when the time comes we need support for passage of the North American Free Trade Agreement.**

Beyond this, we need to recognize the challenge inherent in the Enterprise Initiative for our political process here in the United States. When the Latins deliver on their side of the bargain, and after all, it was a bargain, we must deliver on our side. When we provide leadership in our hemisphere, with a substantive program like the Enterprise Initiative, we need to project to the American people that economic progress in Latin America means economic growth and prosperity right here in the United States.

♦ ♦ ♦