

U.S. DEPARTMENT OF THE TREASURY

Press Center



Remarks by Secretary Henry M. Paulson, Jr.

4/7/2008

HP-907

At the Inaugural Session of the Inter-American Development Bank Annual Meeting

It is an honor to receive the Chairman's gavel on behalf of the United States of America. It is most appropriate that we are here in Miami, a city which is rightly known as the U.S. gateway to Latin America. Thank you, Minister Fuentes and the government of Guatemala, for your leadership of the Inter-American Development Bank this past year. And thank you President Moreno for making the Bank more nimble and effective in creating economic opportunity and reducing poverty throughout the Western Hemisphere. We believe that we should measure success by demonstrable results that show the IDB's operations are building and strengthening foundations for sustainable and widespread economic growth in the region.

A number of you have asked about the current challenges facing the U.S. economy. We are going through a difficult housing correction that is also impacting our capital markets. We are taking a number of aggressive measures to minimize the downturn's effect – including helping homeowners avoid preventable foreclosures, and enacting a stimulus package to provide a boost to our economy and create jobs this year. U.S. long-run economic fundamentals remain sound, and the good news is that Latin American economies and financial markets have proven more resilient to the recent global financial turmoil than many might have expected. I believe we will work through this period as we have worked through past periods. And we will, as we always do, return to robust growth that benefits the American people and our neighbors in the Americas.

We share aspirations for a Western Hemisphere growing in liberty and prosperity and, as President Bush has stated, we have witnessed great achievements. Most recently, this includes the work by many of your countries to shore up public finances, reduce debt and open markets. This has resulted in real incomes increasing by 26 percent over the past five years. The region, as the IMF has recently noted, is now "reaping the rewards from a decade of investment in reducing vulnerabilities."

World Trade and Economic Integration Drive Growth

President Bush also knows well that stronger neighbors, who collaborate and work together, build a stronger neighborhood for us all. I share his view, and all of us in the Administration work hard to make sure the American people understand that we benefit from healthy, prosperous neighbors. If we are to achieve our goal of reducing poverty and creating opportunity, economic integration and trade are dynamic vehicles for growth and job creation. Certainly, history has shown that those countries that open themselves to trade and investment prosper, while those that don't are left behind. One of the most disturbing trends I see in the United States is an inclination against openness, a desire to retreat from world markets.

I have great confidence in America's workers and in the workers of all the Americas to compete and succeed in global markets. Yet, there is no doubt that we are in a time of rapid economic change. In some instances and in some industries this creates hardships and job losses, in your countries as in mine. What we need to do is figure out how to deal with the job losses that come from trade and make sure that we do not turn isolationist. Isolation limits prospects, limits prosperity, and dampens hope. This Administration is committed to pushing back on the rising tide of protectionism.

The United States welcomes the opportunity to work with countries in the region in building the financial, physical and market infrastructures that will help all of our people prosper. We share the goal of inclusive economic prosperity that spreads your impressive top-line economic growth more broadly through your societies, reaching those who traditionally have been left behind.

The United States remains firmly committed to expanded world and regional trade as a powerful path to inclusive prosperity. This means that international development efforts need to link many more people to the opportunities that are created by trade. Resources and policies need to empower small businesses and farmers, particularly historically excluded groups.

Promoting Economic Integration

Our efforts, therefore, must focus on financing infrastructure to build and strengthen the connections between national and regional markets, and on reducing or eliminating barriers that hinder regional industrial, agriculture and services trade. The World Bank finds that it takes on average over 22 days for a Latin American exporter to move product from warehouse to port; in the United States this takes six

days. To be viable suppliers to world markets, our region's companies need to move goods quickly and efficiently. Efficient customs procedures and harmonization of rules across borders would further reduce trading costs and delivery times --- helping both buyers and sellers of goods. We must also extend these efforts to developing and exchanging best practices within the region.

Finally, we must re-commit to building the capacity for trade, which helps small and remote businesses gain access to world markets and become exporters. The IDB has been a leader and set the standard for other donors in emphasizing trade capacity, as has the United States. Trade capacity building has been an integral part of U.S. free trade agreements in the region. Enhancing regional cooperation and involving the private sector and civil society will also deepen understanding and trust, which can lead to greater gains.

Economic integration makes industries throughout the region more dynamic, more innovative and more competitive. Companies will have greater access to capital and to larger regional and global markets, giving consumers more choices. Global competition reduces the prices of goods and services, which is particularly beneficial to those with lower incomes.

IDB and U.S. Efforts

Since IDB governors gathered in Guatemala City a year ago, both the IDB and the U.S. government have launched positive new initiatives in the region, often in close collaboration. The IDB's renewed emphasis on private sector activity through the Integrated Business Plan is most welcome and we urge its continued expansion. We applaud the Bank's renewed efforts to reach the poorest segments of the region's society through the Opportunities for the Majority Initiative. The Sustainable Energy and Climate Change Initiative rightly focuses on the region's need to address the challenges of renewable and efficient energy and climate change.

In these and all activities, we urge the Bank to continue to focus on concrete results that demonstrate achievements towards its core mission of economic growth and poverty reduction. We should measure the quality of the assistance, not just the quantity.

Let me also take this opportunity to acknowledge the tremendous achievements of the Multilateral Investment Fund (MIF) over its first fifteen years and to thank Don Terry for his great leadership during that time. We will miss Don but know that the MIF's important work promoting private-sector jobs and growth will continue, with our strong support.

The U.S. Treasury Department has launched several initiatives to promote economic integration within and between nations in our hemisphere. We are focused on specific areas where we can support the region's efforts to spread opportunity through all levels of society, to reduce poverty and help the poor move into the middle class. Specifically, we are working to help build the physical and financial infrastructure that facilitates economic mobility and integration.

Financial services are the backbone of any modern economy, and access to capital can mean the difference between a people who thrive rather than merely survive. The Small Business Finance Initiative was launched last summer for just that reason. Treasury, the Overseas Private Investment Corporation, the Multilateral Investment Fund, and the Inter-American Investment Corporation are encouraging market-based bank lending to small and medium sized enterprises in the region. This initiative has introduced new lending models to fit smaller firms. It offers risk-sharing guarantees and loans to eligible banks so that they will broaden their lending base, and identifies regulatory changes that can increase credit available to small businesses. The initiative also finances technical assistance so local banks can develop the "know-how" needed for small business lending.

In just nine months, over \$50 million has been committed to Latin American banks to expand their operations in the small business sector. An additional \$165 million is in the pipeline, a portion of which will be dedicated to small business lending. Think about this vision --- new businesses all across the land and entrepreneurs closer to achieving their dreams.

We also know that financial inclusion is vital. Effective access to financial services can enable even the poorest households to manage their financial resources. This impacts small businesses, too, because often the money to start a business comes from personal savings or personal loans. . Treasury, especially through the good work of our Treasurer Anna Cabral, is actively working with several countries in the region to lower barriers to financial inclusion.

Once a business has the capital base to build and grow, it must have a means to get its goods and services to markets. In partnership with the International Finance Corporation (IFC), Treasury also began the Infrastructure Development Program of the Americas (IDPA) last year. The IDPA assists in identifying, structuring and launching sustainable infrastructure projects based on private sector partnerships. Together, the United States, Brazil, the IFC, the IDB and other partners have contributed \$12 million, with an additional \$8 million expected in the next one to two years.

To date, twelve IDPA projects, committing \$1.3 million, are signed or in advance negotiations. These projects are in Brazil, Colombia, Haiti, Jamaica, Mexico and St. Lucia. They include airport and telecom projects in Haiti, and a major road project in Colombia. Overall, this \$1.3 million will be leveraged for an additional, estimated \$2.6 billion in private investment; \$450 million of that will be greenfield investment. Estimates are that these transactions will bring improved basic services to 500,000 people and save local governments a minimum of \$200 million. Savings by these local governments should mean they can use that money to build schools, roads and offer other services.

Latin American Free Trade Agreements

The United States welcomes two-way trade with the Americas, and we have a record of success. Our two-way trade flows, including Canada, topped \$1 trillion in 2007 and two-way investment was also more than \$1 trillion. Workers employed in the United States sent an

estimated \$45 billion home to their families in 2006.

Free Trade Agreements with nine Latin American countries have been approved by Congress and agreements with Colombia and Panama are pending. Two-way trade with existing regional FTA-partner countries was more than \$400 billion in 2007, or 75 percent of our trade with Latin America.

Over the last few decades positive change has swept throughout the Western Hemisphere, expanding democracy, the rule of law and economic reforms. While some would turn back the clock to an undemocratic past of restricted freedoms and stunted economies, the vast majority of people in the Americas live in democracy, peace and increasing opportunity. Not surprisingly, they like it this way.

We see this in Colombia, where President Uribe has succeeded in transforming his country into one of the most stable and strong democracies in the region. Dramatic economic improvements have followed increased safety and security --- Colombia has one of the highest growth rates in the region, and poverty and unemployment are at ten-year lows. Congressional approval of the Colombian free trade agreement will reinforce democracy in Latin America by showing support for a key ally, an ally who has made significant advancements to combat violence and instability.

In December, Congress approved the trade promotion agreement with Peru, which is basically the same agreement we have reached with Colombia. I call on the U.S. Congress to show support for the Colombian people and provide greater hope for their future by passing the Colombian trade agreement without further delay. Immediately after approving the Colombia FTA, Congress should turn to the pending agreement with Panama to further build the existing trade relationship with another U.S. ally.

One of the many things I have learned since moving to Washington is that no trade bill is an easy bill. You are all aware of how hard-fought these agreements are, and also aware of their positive long term economic gains that benefit your people. The Bush Administration remains committed to fight for these gains and welcomes your support as we do so.

Conclusion

Closer economic ties between nations create common interests and common goals that tend to lead to solutions rather than conflicts. We have made great progress within our hemisphere. While we gather here, let's share this good news and know that our work is far from done. While millions have been lifted from poverty, millions more still look for a hand up and a way out. The United States looks ahead to the future with you, at the same time we stand beside you to help ensure we achieve all that we plan, and all that we can.

-30-