

**Completing Latin America's Twin Revolutions**  
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Address to the Council of the Americas  
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-As Prepared for Delivery-

Thank you for inviting me to join you today. I would like to offer particular thanks to David Rockefeller for all his years of hard, patient work for this most special cause.

David has always understood that America's vision of the future would pale unless it includes the vibrant colors of a dynamic Latin America. When he surveyed the Americas in 1965, he saw the great promise of a hemisphere united in peaceful commerce and democratic exchange. History has proven his insight. With the commitment of those from successor generations, the future will prove him right.

Latin America's Unfinished Revolutions

I wanted to be with you today because I know well that there are anxieties in Latin America.

The anxieties are compounded by a concern: Given the U.S. focus on terrorism after 9/11, Latins want to know what the future has in store for hemispheric relations.

So let me start with a vision: Together we can create in our hemisphere a model for the world of free men and women pursuing life, liberty, and happiness-with both tolerance and respect for differences and promotion of the values that unite us.

It will not be easy to achieve, but great causes are never effortless endeavors.

The President and all of us appreciate the solidarity of the hemisphere after 9/11 when the OAS activated the Rio Treaty. We also appreciate that solidarity runs both ways.

For my part, I am proud of my many friends throughout the Americas. I first started working with Latin America in the 1980s. During my year or so as trade representative, I have traveled to Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Uruguay. Soon I hope to travel to Central America and the Caribbean.

To view the picture I have seen over time, one has to step back, as in a gallery, to see the painting of Latin America as a whole.

Twenty-five years ago, the Latin American economic fashion was "import substitution." As articulated by Raul Prebisch, the view then was that trade was harming developing countries. His solution was for Latin nations to close their borders, subsidize domestic production, and substitute local goods for imports, at least for a time. But it turned out that the time kept getting longer and the subsidies kept growing larger.

Prebisch later acknowledged that his model did not work; closed economies stagnated and few competitive industries were created.

Latin Americans themselves recognized the awkward reality: Governments of the right had tried “capitalism without markets,” and those of the left had tried “socialism without a plan.”

By the early 1980s, foreign debt had soared to unsustainable levels. By mid-decade, inflation was out of control and deepening economic crises were spawning widespread political emergencies.

Then two revolutions struck. Unlike many past Latin revolutions, these causes began gradually-and peacefully. Before long, however, they began sweeping through the region. One was an economic revolution; the other was political.

These revolutions were unique in other ways. These were revolutions of ideas. The point of the vanguard was a pen, not a bayonet. The goal was prosperity for consumers, not caudillos.

The intellectual economic revolution was the embrace of markets; the intellectual political revolution the commitment to democracy. Responsible leaders on both the left and right had the courage to reconsider their dogma of controls.

Before long, tariff walls began to fall, moribund state industries were privatized, fiscal discipline became a goal-if not always achieved-of governments that had once spent without restraint. Independent central banks began to curtail currency printing presses from covering state profligacy.

These free-market reforms achieved results. Let’s take a real accounting of what this economic revolution accomplished:

- Inflation is down regionwide, from an average of 500 percent in 1990 to 7 percent last year.
- Real GDP grew at an annual average rate of 3.4 percent in the 1990s, well above the 1.2 percent of the '80s.
- On a per capita basis, real GDP rose at an average annual rate of 1.5 percent, against a decline of almost 1 percent in the '80s.
- Export volume grew by 10 percent per year in the 1990s, twice the rate of the previous decade. As both the IDB and the IMF have reported, trade growth helped increase productivity and better paying jobs.
- Privatization-especially of utilities-produced better services, more extensive coverage, increased investment, and enhanced efficiency.
- Foreign direct investment surged from \$9 billion in 1990 to \$76 billion in 2000, and this investment

was closely linked to expanding exports and creating jobs.

- Public social spending rose by three percentage points in the 1990s-to 13.1 percent of growing GDPs-as a result of stronger growth, recovery in public revenues, and the priority assigned to social spending by more open governments.
- According to the UN Economic Commission on Latin America, poverty declined from 41 percent in 1990 to 35 percent by late in the decade.

Of course, this is only a start. Much, much more needs to be done.

An intellectual revolution cannot think away realities. Developing nations are still developing: they face a shortage of capital; they are vulnerable to external economic shocks; they still must help 185 million people in Latin America living on less than two dollars a day; they need governments that do not deceive publics with populist pretenses, only to throw away the hard-earned gains of recent years.

Latin America today stands in the middle of a bridge spanning the chasm between statist stagnation and free market dynamism. It is unwise to stop in the middle of a bridge and say, "I have walked in this direction long enough-I will now turn left or right."

The first generation of economic reforms often depended on executive actions to counter crises. The second generation necessitates executive-legislative compacts to achieve long-term transformations: fiscal controls in federal systems; transparent legal and regulatory regimes backed by honest judiciaries; tax codes and pensions savings that build public trust, not undermine it; and schools and education systems that draw all of society toward opportunity, not protect isolated privilege.

In a global economy, Latin America must keep looking outward to prepare for competition. Trade barriers remain high for many products and sectors. State enterprises have been privatized, but burdensome regulations still make starting and running a business needlessly costly, often impossible. The financial sector-the critical circulatory system of a capitalist economy-has been virtually untouched by reform in many places.

Look at the performance of the countries that have faced the inevitable trials by deepening reforms: Chile...Costa Rica...Mexico...and Brazil have not escaped the global slowdown, but they are weathering economic cycles within the framework of democracy and continued reforms. And they are succeeding.

The second great revolution in Latin America has been equally important: Oppression, violence, and dictators on both the left and right have given way to a commitment to democracy as the only legitimate form of government.

The pace of change has been astonishing. In 1970, 17 of 26 countries in Latin America and the Caribbean had authoritarian regimes. Today, Cuba's island dictatorship stands alone and isolated.

Latin America has forged a strong compact to defend democracy. But like the economic revolution that is still unfolding, the political revolution needs new generations of volunteers.

Democracy is more than just holding elections. It is the Liberal idea embodied in the phrase, “The rule of law, not of men.” It is a neutral, comprehensible framework of rules enforced impartially and justly. It demands a legal system that respects and enforces property rights and contracts. It requires rational regulations that unleash economic risk taking and effort. It needs transparency and a free press to keep government honest.

Given the challenges, the countries of Latin America need to draw on the talents of all their people. The poor of Latin America do not need Patrons. They do not need Populists. They need possibilities for prosperity. They need freedom to build their own futures. Barriers to commerce because of race, national origin, family background, and gender need to be eliminated so that economies can reap maximum gains from talent, perseverance, and creativity.

The new political economy of Latin America needs to give a stake in the future to all the people. As Hernando DeSoto explored in *The Mystery of Capital*, property rights and clear title are the prerequisites for entrepreneurial societies, upward mobility...and hope.

To be worthy of their people, the elected Latin leaders must move beyond an entrenched culture that views power and economics as the rewards in a zero sum contest. Political power is too often its own justification—a means to enrich oneself and one’s friends at the expense of the public.

Societies’ privileges also include responsibilities. Where are the great Latin universities, foundations, and libraries founded by the wealthy families? Like David Rockefeller and his family, those who have received much in Latin America should invest in their societies.

### Free Trade and the Twin Revolutions

Ultimately, Latin America’s economic and political revolutions are synergistic and entwined. There is no better example of this virtuous dynamic than free trade.

Free trade is about more than economic efficiency. It is about openness, about the right of individuals and associations of individuals to make choices. Choices about where to buy, where to sell, and where to invest. Free trade is about freedom. By diffusing economic decisions, free trade and free markets reduce the ability of people in high places to use power to strengthen privilege.

Free trade is about building prosperity and overcoming poverty, too. The World Bank’s research has shown that the income per person in globalizing developing countries grew more than five times faster than it did in non-globalizing developing nations during the 1990s. The absolute poverty rates for the open economies fell sharply over the past 20 years, and the income levels of the poorest households kept up with the growth.

I appreciate that the pursuit of free trade is a mutual responsibility. There are many days I have cause to

recall the caution of the British historian Macaulay, who wrote in 1824 that “free trade, one of the great blessings which a government can confer on a people, is in almost every country unpopular.” So we will succeed or fail together.

As the largest and leading economy, when the United States falls short in the pursuit of free trade, as we do, it is understandable that we receive your criticism. So be it. We should respond by striving for greater openness.

Yet as you make your judgments, I urge you to keep some facts in mind, lest you fail to appreciate how we can advance together.

Many of our trading partners have taken for granted that the United States has already lowered most trade barriers over the past half century, that the average U.S. trade-weighted tariff of about 2 percent is much lower than their tariffs, and that our open economy generally has eschewed the non-tariff barriers and anti-competitive arrangements all too commonplace around the globe.

They take for granted that the United States imported over \$1 trillion of their products last year. They take for granted that U.S. growth will again pull the world economy out of its slump.

For example, the United States is in the process of lifting all its quotas on textiles and apparel by the end of 2004, and through this transition the sector has lost hundreds of thousands of jobs. Many countries want us to move more quickly, although they are unwilling to lower their apparel tariffs even to U.S. levels-to say nothing of their high barriers to other U.S. exporters. We need a reciprocity in openness to advance.

We recognize that the United States has protectionism to counter at home. We want to keep U.S. markets open and even open them further. To do so, however, we must build a domestic consensus in favor of liberalization. That requires mobilizing exporters, import users, and consumers-something that will never happen unless other countries give American businesses and farmers a fair chance to compete. Greater openness is possible, but it must be a mutual process in which we all move forward together.

#### The U.S. Trade Agenda for the Hemisphere

The Bush Administration has been pressing ahead with trade liberalization globally, regionally, and bilaterally.

If others are ready to open their markets, America will be their partner. If some are not ready, or want to complain but not lower their own barriers, the United States will proceed with countries that are ready.

On the global front, we worked closely with Latin America and Canada last year at Doha to launch new WTO negotiations to open world markets, reversing the debacle at Seattle.

Our basic goals are in alignment: Our primary focus is to negotiate freer markets for agriculture, manufactured goods, and services.

Indeed, without the U.S. efforts to support a strong agricultural mandate, Latins know that Doha would not have been successful.

So I want to reassure you that both the President and the Congress remain committed to the goals of the Doha mandate. The new Farm Bill should not raise any questions about our common aims to eliminate export subsidies and substantially improve market access. Indeed, because the average allowed agriculture tariff for WTO members is over 60 percent, with Japan over 50 percent, the EU over 30 percent, and even the Cairns Group of agricultural producers over 30 percent-whereas the U.S. average is about 12 percent-we will press others to match words with deeds.

Nor will we shrink from pursuing substantial reductions in trade-distorting domestic support. The message of the Farm Bill is that the United States will support our farmers fully while maintaining our WTO obligations. That is why the bill contains an unprecedented "circuit breaker" that will reduce farm support if we reach our WTO limits.

Keep in mind that the EU's ceiling of over \$60 billion of trade-distorting subsidies is three-times the U.S. ceiling of \$19.1 billion; Japan enjoys a ceiling of over \$30 billion, more than one-and-a-half times the U.S. cap. Also recall that the EU accounts for 90 percent of the world's export subsidies, spending over 25 times as much as the United States.

The agriculture community and Members of Congress are very supportive of the Doha declaration for the reasons I just mentioned. They recognize that some restructuring of farm programs may be required at some point. But these changes will need to be based on the new economic opportunities we create by working together for meaningful agricultural trade liberalization in the WTO.

Therefore, our goal is to use the Doha negotiations to create a more level playing field in world agriculture and open opportunities overseas during the life of this Farm Bill.

At Doha, Brazil and the United States also worked together to achieve a landmark statement: the political declaration highlighting the flexibilities in the international intellectual property agreement that should enable countries to address public health emergencies, such as HIV/AIDS. I want to thank, in particular, Minister Lafer on this and many other issues, setting a course, I hope, for Brazilian -U.S. cooperation in the future.

Looking ahead, we need to keep the Doha agenda on track and explore other avenues for global cooperation, for example in biotechnology. We are fortunate that Mexico has agreed to host the next WTO meeting of Ministers in 2003, because I believe Minister Derbez and his associates will be instrumental in maintaining the progress begun at Doha.

The top U.S. regional trade priority is the Free Trade Area of the Americas.

Last year, our work leading up to and at Quebec City finally gave the FTAA a definite negotiating text and a serious momentum. To stay on schedule, we need to finish this month the work to launch the market access phase of the negotiations. Then later this year, Brazil and the United States will become co-chairs of the FTAA-ALCA negotiations, jointly responsible for driving the talks to a successful conclusion. If the next Brazilian government keeps on the course set by President Cardoso, Minister Lafer, and their cabinet colleagues, I am optimistic about what we can achieve.

We will also move toward free trade throughout the Americas by completing our FTA with Chile and launching FTA negotiations with Central America. In Chile, we have a negotiating partner which has set the standard in Latin America for progressively opening its economy and transforming its political system. In Central America, we have an extraordinary opportunity to support regional integration, lock in economic reforms, lend momentum to new economic advances, and strengthen the rule of law, good governance, and democratic institutions.

And we are pressing hard to complete the final lap in the Congressional reauthorization and expansion of the Andean Trade Preference Act. For ten years, the ATPA has opened U.S. markets unilaterally to some \$1.7 billion worth of goods from Colombia, Peru, Bolivia, and Ecuador to help these fragile democracies fight narcotics, terrorists, and poverty. Its expiration is causing real hardship to thousands of small businesses. The House of Representatives authorized an expanded ATPA, and we are urging the Senate to do so as part of the trade package now being debated.

#### The Need for Congressional Action

For all of you interested in the hemisphere-and the ultimate success of the twin revolutions of markets and democracy-I urge you to let Congress know what is at stake with the trade package that the Senate is now debating.

We need Trade Promotion Authority now so we can start bringing back trade agreements to the Congress for an up-or-down vote on the packages. We need rapid action on ATPA. We need to renew the Generalized System of Preferences for developing countries. And we need a reasonable Trade Adjustment Assistance package.

The world is watching whether the Senate can resolve its disputes in a way that recognizes America's larger national interest in this hemisphere and the world.

#### Conclusion

In closing, I want you to know that this President is committed to the cause of this hemisphere. We know that the stakes are great.

We could see that after crises prompted the first generation of reforms in Latin America, rapid improvements gave people reason to hope that they could build a better life for themselves and their families. They began to dream great dreams.

Those dreams have not been realized as quickly as any of us would have liked. Yet real prospects for

historic improvements are attainable.

Sadly, there is no quick fix to the problems of poverty and underdevelopment. The next generation of market and political reforms will require courageous leaders who will not flinch from their responsibility. It needs leaders who will look beyond self-interest, beyond the next election, to promote empowerment of all the people of Latin America.

For those with that determination and foresight, let me make clear the U.S. resolve and vision: We will work with you. We will strive with you. We will reach with you to make this hemisphere a model for the world.

And I believe we will succeed.