Remarks as Prepared for Delivery
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U.S. and Latin America: Partnering for Mutual Growth, Transparency, and the Rule of Law
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Thank you very much for the invitation to today's conference. It is a pleasure to speak with so many colleagues, Latin America experts, and those interested in such an important part of the world – and one that has featured prominently in both my personal and professional life. I would like to thank the Center for Strategic and International Studies for hosting this discussion, and especially Georges Fauriol, Michael Matera, and the rest of the CSIS team for the hard work that went into this event.

I will use the time today to discuss the importance of the U.S. relationship with our southern neighbors, initiatives we have under way to build that relationship, and challenges presented by China's non-market activities. This year – 2018 – marks a critical period for the region as voters in many of Latin America's democracies head to the polls to choose leaders and policies to provide better opportunities for prosperity and security and to address slow growth, corruption and crime.

Following important visits by Vice President Pence and Secretary Tillerson, the region is hosting key events, including the Summit of the Americas in March in Lima and, near the end of the year, the G20 Leaders' Summit in Buenos Aires. Secretary Mnuchin will be in Argentina for the G20 meetings in March and will visit elsewhere in the region. To the north, Canada will be hosting multiple events for the G7. I am headed there next week.

In each of these engagements, the Trump Administration will continue to demonstrate our commitment to promoting faster growth and higher median incomes in the hemisphere and improving our economic ties through trade that is fair and reciprocal. Many countries have made progress in strengthening their institutions and economic policies, and we look forward to working with the region to build on the shared values that have defined the hemisphere – the pursuit of greater economic opportunity and prosperity, in peace, security, and dignity.

It is important to note that, while citizens in 33 of the 35 countries in the Western Hemisphere have chosen democracy, autocrats in Venezuela and Cuba have chosen to rule through repressive dictatorships. In Venezuela, a topic I will return to later, the United States joins with the members of the Lima Group and the European Union in demanding free and fair elections to reverse that country's slide into dictatorship and poverty.

In Cuba, the Trump Administration condemns the absence of the voice of the people in the leadership transition. In his speech yesterday, Secretary Tillerson reiterated President Trump's policy to support the Cuban people by steering economic activity away from the military, intelligence, and security services, which disregard their freedom.

One of the most important achievements of 2018 in the Americas would be to see political and economic freedom for ALL citizens of the Western Hemisphere.

There's a welcome improvement in the backdrop for the region's growth due to the acceleration in U.S. growth and the broader rebound in the global economy and in commodity prices. An ongoing moderation in inflation across the region, in part due to more stable exchange rates, should allow monetary policy to play a supportive role in many countries. However, substantial challenges remain. The desire is to achieve higher median income, reduce poverty, and allow the rapid innovation necessary in the 21st century. This requires many changes – increased investment including infrastructure, improved education and human capital, a sweeping reduction in the regulatory barriers that are diverting growth into the informal economy, stronger institutions that can help reduce corruption, and better trade policies.

For this vision to become a reality, each country will need to make sound policy choices that create strong, long-term investments. With global capital markets robust, there's an opportunity to secure favorable, transparent financing and work toward market-oriented systems that add to growth.

In that context, I would like to address China's activities in the Latin American region. China has grown to be an economic force in the world economy, and for many years the United States welcomed and supported its gradual liberalization. China's growth contributed to global economic growth, and the hope was that China would develop into a fair and reciprocal trading partner. However, the direction in China has clearly shifted. Market liberalization has stalled and certain policies and activities have even moved back toward a more state-dominated economic model. While China professes to embrace globalization and openness, in practice its markets are relatively closed.

China's industrial policies also can have serious implications for countries tempted by its massive non-market export credits and loose financing terms, especially if their governments and institutions aren't robust. The vast majority of China's foreign direct investment, development finance, and overseas development assistance is oriented toward resource extraction and infrastructure that facilitates resource extraction. In many ways, China is resurrecting the regional growth model of the past – 83 percent of China's imports from Latin America are raw commodities, with no indication that it is shifting its demand to higher value-added products or helping partner countries move up the value chain.

Non-market Chinese investment undercuts the incentives of recipient governments to improve their business environments, governance structures, and macroeconomic policies. Financing deals too often consist of long-term contracts for commodity exports at prices favorable for China, not the exporting country. An analysis of foreign direct investment data, as measured by the World Bank's Rule of Law Index, suggests that while global FDI flows are correlated with quality of governance, the Chinese portion of FDI is agnostic, meaning it invests without regard to the quality of governance.

I want to make clear that engagement with China could benefit the region if the terms were fair and projects were market-oriented. China has invited the CELAC group to join the One Belt One Road initiative, yet this would likely have more benefit for China than for the people in those countries. As Secretary Tillerson said yesterday, "China offers the appearance of an attractive path to development. But in reality, this often involves trading short-term gains for long-term dependency."

Rather than help reform governance and macro policies, China's investments have too often enabled poor governance. Let me highlight here the case of Venezuela, China's largest investment in Latin America. Most of the blame for Venezuela's economic collapse and humanitarian disaster falls squarely on the Venezuela's rulers. But China has been by far Venezuela's largest lender, supporting poor governance. The result will raise the ultimate cost to the international community once Venezuela's returns to democracy and economic reforms.

China denominated its loans to Venezuela in barrels of oil. This has the effect of masking the exact amount of payments that China made to Venezuelan officials and that Venezuelans are expected to make to China in the future. If you ask China for its terms you will not find them, as China has refused invitations to join the Paris Club of bilateral creditors – in which the disclosure of financing terms is the norm. China similarly has avoided subscribing to the OECD norms that apply to export credit agencies.

Also, we are concerned about the IDB's initial selection of China as host for the 2019 Inter-American Development Bank annual meeting. The Bank's 60th anniversary is an important milestone to celebrate the Bank's accomplishments in the hemisphere, and it would be fitting to hold the meeting in the hemisphere among major donors and borrowers.

Latin America Growth Initiatives

With 2018 summits in Peru, Canada and Argentina, the Americas has a unique opportunity to highlight significant regional progress and signal to our citizens and our international partners a strong and prosperous future direction.

We see these as opportunities for the region to renew its commitment to the ideals of democracy, transparency, human rights, and the rule of law – ideals that so many have dedicated their lives to upholding and that will lay the foundation for a century of greater prosperity and security in the region.

These events also offer an opportunity for the United States to renew its political and economic bonds with the countries of the region, and renew a relationship that has matured over the decades to reflect a true partnership based on a shared desire to see each other succeed.

As part of this relationship, I will discuss a number of hemispheric growth initiatives Treasury and the Administration are working. Together, they could be named *America Crece* – or "The Americas Grow." The initiatives increase trade and investment in energy and infrastructure, expand private investment flows, and develop deeper regional capital markets. We want to encourage a return to democracy in Venezuela, help increase transparency and combat corruption to improve the business environment, and support the Northern Triangle's efforts to address economic and security challenges and stem the impetus for illegal immigration. Working with the region, we aspire to greater economic opportunity, higher median incomes, and a strong respect for the rule of law.

The anchor for growth initiatives is the region's need for energy and infrastructure investment.

1. *Framework for Energy and Infrastructure*

Growth in energy and infrastructure, both in the U.S. and abroad, is a high-priority Administration objective, and critical to broader growth. With that in mind, we are developing a multi-part approach that will promote U.S. exports of energy and energy infrastructure; attract investments in the region in the areas of energy and infrastructure, with new opportunities for U.S. businesses to participate; and catalyze private capital for the financing of these exports and investment projects. We envision an increase in both primary market project financing as well as secondary debt trading and asset management activity.

Beginning in Latin America's priority markets, framework agreements will seek to deepen the Americas energy markets. Each framework will, in a manner that is mutually beneficial to the U.S. and its partners:

- Promote increased sales of energy commodities from the United States in each priority market;
- Increase trade and investment opportunities for U.S. firms in (a) the resulting downstream projects utilizing energy from the United States combined with the related midstream projects necessary to support this downstream activity; (b) innovative energy projects utilizing leading U.S. technology; and (c) infrastructure projects generally;
- Catalyze private capital by creating opportunities for U.S. financial services companies to (a) originate energy and infrastructure loans to finance this activity in primary markets, as well as (b) sell those loans on the secondary market and to asset managers to be packaged in investment fund vehicles; and
- Develop, and work with host governments in the implementation of, tailored commercial, investment and finance policies and market reforms, enabling the contemplated U.S. commercial and financing activity.

The purpose is to build open, competitive, resilient, reliable and efficient energy markets, while expanding U.S. exports of energy and energy infrastructure. Affordable energy will stimulate economic growth and strengthen regional political and energy security. Country frameworks within this initiative will vary with the host economy and the opportunities. Some countries are net energy exporters, but could benefit from a framework agreement that would expand U.S. investment in power generation, transmission, refined products, and energy infrastructure, as well as other infrastructure.

2. *Technical Assistance*

Treasury's Office of Technical Assistance already has programs underway in 16 countries in the Western Hemisphere, focused on building public financial management capacity, improving the soundness and supervision of banking systems, and strengthening implementation of controls to combat economic crime. As we engage with countries to expand our trade and investment in energy, we may be able to provide technical assistance in areas that support energy and infrastructure reform programs, as well as the development of investment frameworks consistent with best international practices. These include transparent investment and taxation rules, contract sanctity, clearly defined dispute resolution mechanisms, efficient contracting practices, third-party access to infrastructure, and transparent procurement guidelines.

3. *Lima Group and Democracy*

Our democratic allies in the region should know and anticipate the benefits derived from embracing and promoting democratic practices. Likewise, autocrats and dictators should know and anticipate the consequences of undemocratic practices and illegal acts.

We applaud the leadership of the Lima Group countries that have rejected the Maduro regime's autocracy and pressed it to accept humanitarian relief for the people of Venezuela. We will continue working with our partners in the region toward free and fair elections and the provision of humanitarian relief for the millions of victims of the Maduro regime. Through our financial sanctions, the United States will not permit U.S. persons to participate in Maduro's liquidation of the Venezuelan economy and mortgaging of the country's future with crippling debt. Another set of Treasury sanctions targets Venezuela's enablers in the Cuban military and intelligence services.

As Venezuela has collapsed, we have seen the hollowness of its attempt to project its influence in the region. We are gratified that PetroCaribe recipient countries have had time to adjust to Venezuela's inability to deliver on its promises, as recently seen with Jamaica's PetroJam, and we hope that countries in the region seize the opportunity to diversify their energy imports, including to more efficient natural gas.

It is important that the Lima Group remains steadfastly committed to the principles outlined in their statements. Decisions taken by Venezuela's Constituent Assembly should not be recognized. In light of this, we are concerned that the Corporacion Andina de Fomento, the regional development bank, may provide significant new financing to Venezuela's central bank outside Venezuela's constitutional processes, supporting Venezuela's autocracy and putting CAF's own finances at risk.

4. *Combatting Corruption*

The region confronts a scourge of corruption and criminal networks that prey on our peoples and weaken our economic potential. When we allow impunity for public officials that abuse their offices for profit and threats to public safety by criminal and drug trafficking groups, it dampens faith in the rule of law and erodes the effectiveness of the very institutions charged with confronting corruption.

The echoes of the Odebrecht scandal continue to reverberate throughout the region. I see room for optimism in that many countries have taken important and public steps to acknowledge and address the scandal. If the public reckoning taking place in several countries helps lead to stronger checks and balances, it will ultimately strengthen democratic foundations.

Strong institutions require integrity and the faith of the public. We continue to hear from U.S. firms that corruption and the wide range of standards is a major impediment to increased U.S. investment. Raising the bar on public integrity, increasing transparency and coalescing on strong standards will make economies more productive and efficient. The OECD, through its Recommendation on Public Integrity, emphasizes that this is not just a moral issue, but ultimately is intimately tied to economic growth and prosperity.

5. *NADBank*

Treasury is committed to better utilizing existing institutions to create the potential for faster growth in Latin America. We're exploring a new strategy with our Mexican partners in the North American Development Bank, NADBank, to focus on economically impactful projects that could include projects in the energy and transportation sectors that fit the NADBank's mission and would improve economic conditions in both the U.S. and Mexico.

6. *NAFTA Modernization*

As part of the Administration's efforts to modernize the North American Free Trade Agreement, Treasury is working to ensure that NAFTA will contribute to strong domestic and international growth through a high quality financial services agreement and protections against unfair currency practices and competitive devaluations.

7. *G7-G20*

Following the Global Financial Crisis, the G-20 group of major economies provided a central forum to discuss the various responses. With the global financial system more stable and world growth accelerating as structural reforms are implemented, we've asked the G20 to focus its activities on a few core objectives. We look forward to engaging with Argentina to help the G-20 promote debt transparency and sustainability, coordinate actions to counter illicit finance, and focus the Financial Stability Board.

Within the G-7, we place great value on our dialogue on key strategic challenges, including cybersecurity, illicit finance, and development finance. On the latter, the increased availability and lower cost of private sector financing requires sweeping reforms of the financial model of the Multilateral Development Banks, some of which depend on repeated capital increases, taking them away from their mission.

8. *Regional Investment Passport*

We see tremendous opportunities to unleash additional private capital flows for investment projects that would help deepen primary and secondary market development in the region. I would like to applaud the four Pacific Alliance countries, Mexico, Chile, Peru and Colombia, for having already taken ambitious steps in this direction. We stand ready to work with the Pacific Alliance and other countries to expand on these opportunities.

Last year, the Alliance's finance ministers announced a plan to create a regional investment passport that would permit investment funds in any of the four countries to market and distribute securities throughout the Alliance. This investment passport is the logical next step in the Alliance's financial integration agenda, which includes the Integrated Latin American Market Initiative, or MILA, which is in the process of integrating the stock exchanges of member countries. The MILA allows firms to list through any of the four exchanges, allows brokers to access any of the other exchanges through a local sponsor, and creates a single trading screen for Chile, Colombia, and Peru. The investment passport will facilitate the mutual recognition of administrators of mutual investment funds and allow them to market their funds in any member country. These types of initiatives will be critical to the development of deeper pools of capital that will be freed to invest throughout the region.

9. *Correspondent Banking Dialogue*

The ongoing evolution of the global financial system has impacted the connectivity of correspondent banking relationships in many parts of the world. The United States remains committed to encouraging access to the U.S. financial system to support economic growth and financial transparency while enforcing U.S. laws and regulations. We continue to engage bilaterally and through the work of multilateral bodies such as the Financial Action Task Force (FATF). As many countries explore different policy and technological solutions, we recognize that improved communication and the exchange of experiences and best practices will help better inform the policy dialogue. Here too, Treasury is actively engaged in supporting the efforts of many countries in the region through technical assistance. Treasury's technical assistance has focused on supporting the efforts of foreign governments to better supervise their financial systems and address illicit finance vulnerabilities, which will in turn bolster confidence in U.S. banks that their foreign counterparties are adequately supervised and able to identify suspicious transactions.

10. *Tools for Disaster Risk Management*

The United States has worked for many years with our partners in the Caribbean and Central America to encourage sustainable economic growth and financial stability throughout the region. As each of us grows, we all benefit.

Natural disasters such as earthquakes and hurricanes present a risk to that growth. They can create large unplanned costs and represent a major fiscal shock, particularly for small economies. They have the potential to wipe out years of growth and development gains.

There are many tools to explore. Countries can examine ways to reduce their risks and improve their response when a disaster hits, thus minimizing long-term economic damage. Countries should also examine financial tools, such as country reserve funds and contingent credit lines. Insurance tools can also play an important role by providing a quick injection of liquidity to support recovery efforts in the immediate aftermath of a natural disaster.

At the World Bank annual meetings last fall, in the wake of a number of destructive hurricanes, Caribbean leaders and international partners including the United States, met to discuss recovery and resilience. Tools that support countries to evaluate and assess risks and plan for disasters

BEFORE they happen will be an important part of these efforts, and we look forward to continued engagement.

11. <u>Northern Triangle Investment</u>

One of the most important challenges for the region is in conflict-affected regions such as the Northern Triangle countries of Guatemala, Honduras, and El Salvador. We welcome Mexico's strong interest in improving conditions along its southern border and look forward to opportunities in this regard. The Overseas Private Investment Corporation (OPIC) has recently affirmed its commitment to catalyzing private sector investment and is developing a pipeline of up to $1 billion in investments for the three countries, thereby mobilizing a critical source of finance that will help stimulate these economies.

Guatemala, Honduras, and El Salvador are grappling with the economic and security challenges that have forced so many of their citizens to leave their homes and risk their lives in search of economic opportunity. Last year, Vice President Pence met with the leaders of the three countries to underscore support for addressing these challenges, and in turn the Northern Triangle countries committed to macroeconomic stability and to take increasing responsibility for financing their own development. A government-wide effort is underway to help the countries generate better economic opportunities by improving business conditions, combating corruption, strengthening institutions, bolstering macroeconomic stability, and reforming tax systems. Ensuring that the Northern Triangle succeeds in its efforts is a goal shared by many stakeholders in the region, and Treasury is partnering with Mexico's Finance Ministry to co-chair a process to deepen coordination with other donors, such as the IMF, the World Bank, and the Inter-American Development Bank (IDB), to help support reform efforts in Guatemala, Honduras, and El Salvador.

Conclusion

The U.S. government recognizes a high priority on our neighbors and their growth. We think investment, trade, markets and democracy are critical. We welcome strategic and sustainable U.S. investment in Latin America. Thank you all for the opportunity to present these initiatives at CSIS today. I welcome our continued dialogue, and I would be happy to answer questions.