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ECONOMIC VIEWPOINT

## Why Bush Must Not Lose Sight of Latin America

It's not surprising that an Administration preoccupied with Iraq and terrorism has had little time for other crises. But the U.S. could be deeply engaged in fighting fanatics for years to come, and it is essential that other serious problems not fall off Washington's high-priority agenda. Case in point: Latin America.

Consider Mexico. Just days before the September 11 attacks, Presidents George W. Bush and Vicente Fox were working toward a deal to resolve the status of the 3.5 million illegal Mexican workers in the U.S. But after September 11, progress stopped. As a result, millions of Mexicans still cross the border illegally, many subjected to physical abuse when caught. Undocumented workers who get into the U.S. find themselves at greater than ever risk because of homeland-security concerns. All this is happening even as America needs productive Mexican workers. Moreover, labor issues have chilled cooperation between the U.S. and Mexico on trade, environmental protection, illegal narcotics traffic, and sharing of energy and water.

Brazil's financial situation is a potential crisis as well. The country's \$290 billion public debt is an astronomical 60% of gross domestic product. Foreign bank lending and investment in the Brazilian stock markets is seizing up. If domestic interest rates continue to rise, driving up debt-service costs, a debt default early next year is possible. That would be bad news for some major U.S. banks. Citigroup's ([C](#)) exposure to Brazil is 13.5% of its equity.

Argentina is in political chaos. Its economy will shrink this year by at least 11%, and it has defaulted on more than \$100 billion of debt to commercial banks and on \$800 million to one of its lenders of last resort, the World Bank. In Venezuela, violent strikes and a politically isolated President have made the country nearly ungovernable as its economy sinks into ever deeper recession. Colombia is staring into a tragic abyss as its narco-guerrilla gangs

spread from the countryside to the cities.

The one major hemispheric U.S. initiative, a free-trade agreement for all the Americas, is moving at a glacial pace. One reason: Latin American nations, led by Brazil, wonder what's in it for them, since Washington continues to block their critical exports with tariffs and subsidies.

For the U.S., the cost of these escalating problems could be high. About 20% of all U.S. exports go to Latin America, vs. 16% to developing nations in East Asia. Because of economic contraction in the Southern Hemisphere, the U.S. merchandise deficit with the region rose by over 31% in the first eight months of this year. The stock of U.S. direct investment in Latin America is worth about \$163 billion, over 30% higher than in East Asia (excluding Japan). U.S. companies, from AOL Time Warner Inc. ([AOL](#)) to General Motors Corp. ([GM](#)), can't be sanguine about the future of their investments.

The stakes are high. At a time of slow global economic growth, financial crises in Brazil and Argentina could spill over into other emerging markets. From Mexico City to Buenos Aires, growing skepticism about the benefits of globalization could bring a reprise of failed populist and protectionist policies.

Economic and political decay could also undermine hemispheric security. Investigative reporter Jeffrey Goldberg, writing in *The New Yorker*, has recently documented that al Qaeda, Hamas, and Hezbollah are present in South America. Cooperation between the expanding network of narcotics traffickers and terrorism is now increasingly possible.

Washington should get in front of this regional crisis. It should reinject life into NAFTA, first with an agreement on Mexican labor in the U.S., then with comprehensive cooperation on border security that expands rather than disrupts trade. The two countries ought to increase investment in transportation systems to boost commerce throughout North America.

The U.S. should befriend the new Brazilian President, Luiz Inácio Lula da Silva, when Lula comes to the White House on Dec. 10. Washington needs to be ready to lean on the International Monetary Fund to provide more assistance. To get hemispheric trade negotiations moving faster and to encourage Brazil to support them, President George W. Bush could also signal his willingness to address U.S. trade barriers to Brazilian exports such

as steel, citrus, and sugar. Washington could also mount a high-profile trade mission to Rio de Janeiro and São Paulo to build stronger commercial links between the two nations.

Of course, it is essential for Latin American governments to strengthen their public-sector management and pursue sound economic policies. On these scores, there is, indeed, much to do. But these countries are natural economic and security partners for the U.S., and they're worth serious attention and help from Uncle Sam. As a new year beckons, Washington should demonstrate a renewed and deeper commitment to the region.

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