

STATEMENT BY ASSISTANT SECRETARY OF STATE
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BEFORE
THE SUBCOMMITTEE ON INTERNATIONAL TRADE AND FINANCE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
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Mr. Chairman and Members of the Committee:

Thank you for the opportunity to appear today to discuss Argentina's current economic and political situation and the status of our bilateral relationship. I especially appreciate the chance to offer my views in the company of my Treasury colleague, Assistant Secretary for International Affairs Randy Quarles, and the other distinguished persons who will testify before you. Their presence here, and your interest in holding this hearing, attest to the importance of Argentina in this hemisphere and the world.

Argentina, a close and valued ally of the United States, has been through much over the last several years. We are pleased that it has now begun its economic and social recovery. Mr. Quarles and others will certainly highlight the economic and financial background and the latest status of the IMF negotiations. I simply want to add that the Bush Administration is united in wanting to see Argentina succeed over both the short and long-term, and believes it can do so by fully complying with the program it negotiated with the IMF.

Since assuming the presidency in May 2003, President Kirchner has sought – in his own words – to make Argentina a more predictable nation, one whose word can be relied upon. He also has sought to root out corruption, restart the Argentine economy and refurbish Argentina's stature in the world.

We believe he has made an impressive start on these daunting challenges, aided by the talented Argentine people, who strongly support him. Congressional and provincial elections last year also showed strong support for the new government. As a result of this voting, President Kirchner's party has a majority in both houses of Congress, holds 16 of the country's 24 governorships, and is now well-positioned to seek the reforms critical to Argentina's future progress. These reforms include revising the system of revenue sharing between the Federal and provincial governments, and finalization of compensation to the banking sector for losses associated with government actions during the 2002 crisis.

Bilaterally, President Kirchner and his government have maintained a policy of close contact with the United States. President Kirchner has met twice with President Bush since taking office –in the Oval Office in July 2003 and in Monterrey at the Special Summit of the Americas in January 2004. At both meetings, President Bush underscored that we want Argentina to succeed, but that it also needed to help itself.

This administration regularly discusses economic issues with the Argentine Government at the highest levels. In these discussions, we also raise commercial and business process issues that U.S. firms have experienced and relayed to us. Neither we nor the Government of Argentina, however, have lost sight of the other ties that link us – including those in the political, trade, cultural, scientific, educational and social areas.

Our deep and broad relationship permits us to address cooperatively a range of issues. One specific area of continued engagement is counter-terrorism. Argentina suffered devastating terrorist attacks in 1992 and 1994, and our shared experience with terrorist attacks on our home soil creates a special bond between our countries. The U.S. works closely with Argentina, Brazil, and Paraguay through the 3 + 1 regional cooperation mechanism to fight terrorism,

money laundering, and drug and arms trafficking in the Tri-Border area. We also cooperate closely in the non-proliferation and scientific spheres, to cite other areas.

I also want to highlight Argentina's important role in seeking to advance the cause of democracy, peace and stability in this hemisphere and elsewhere. Argentina has peacekeeping forces serving in five UN Missions from Cyprus to Kosovo to the Congo. Argentina has been supportive of efforts to address the crisis in Haiti, and it is considering participation in the multinational effort there. Argentina has continued its deployments, and is considering a role in Haiti, despite its very real economic and financial constraints. Argentine diplomacy has also been active on challenging regional issues including Bolivia and Venezuela. In Caracas recently, President Kirchner met with democratic opposition leaders. On Bolivia, Argentina has supported the Mesa government and just signed a billion dollar natural pipeline agreement that eventually could lead to Bolivia earning up to 500 million dollars per year through exports.

Prior to closing, permit me to discuss in more detail our political-level contacts with the Argentine government on its financial problems. Our open, frank and continuous discussions with Argentina on financial and business matters have occurred at all levels and involved several Executive Branch agencies. The Administration also appreciates the role of a number of Members of Congress who have spoken to Argentine officials, in Washington and on trips to Buenos Aires, on the need for Argentina to both grow and set its financial house in order – two mutually reinforcing goals.

These current activities continue our positive engagement with Argentina over the last several years on economic issues. In August 2001, recognizing the key issue of debt sustainability, we made clear our preference that part of a funding package be dedicated to support voluntary debt restructuring. In the crisis of December 2001, President Bush made a

prompt offer of technical assistance. We continued our policy of engagement once President Kirchner took office. When Argentina and the IMF reached an impasse last September over the shape of a new IMF program, we worked constructively – and ultimately successfully – with all parties to advance an accord.

Now, as throughout this difficult period, we see our role as working cooperatively with Argentina, the IMF and our G-7 partners toward achieving a sustainable economic recovery to benefit the Argentine people and contribute to stability and growth in the region. We can and will be helpful, but ultimately the shape of the IMF program, and Argentina's performance under it, are in the hands of the Argentine Government and the Fund.

In cooperation with the IMF and our G-7 partners, we also have worked to limit the regional fallout of the Argentine economic situation, most notably in Argentina's close neighbor, Uruguay. To help shield the Uruguayan economy, and to also put it on a sustainable growth path, the IMF reached a pact with that nation in 2002. We assisted in this effort and the U.S. granted Uruguay a \$1.5 billion bridge loan until the Fund package was approved. This loan, that allowed banks in Uruguay to reopen, was paid back, with interest, in seven days.

As friends, the United States and Argentina can and do speak openly and frankly to one another, while sharing common goals for the hemisphere. The United States also shares Argentina's conviction that it can reverse its severe collapse of the last few years and return to the prosperity it once enjoyed. We will support Argentina's efforts and through them strengthen all our shared goals for our countries and our hemisphere.

Thank you.