



**SIXTH PLENARY MEETING OF
THE INTER-PARLIAMENTARY FORUM OF THE AMERICAS (FIPA)**

OTTAWA, CANADA
SEPTEMBER 13 TO 15, 2009

PROSPERITY AND COOPERATION: A NEW AGENDA FOR THE AMERICAS

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**FINAL REPORT
Working Group No. 1: Financial and Economic Crisis**

(Subject to stylistic amendments)

The Working Group on the Financial and Economic Crisis met at the Parliament of Canada in Ottawa, Canada, on September 13-14, 2009.

The Honourable Luiz Carlos Hauly, Member of the Brazilian Chamber of Deputies and President of FIPA chaired the working group sessions. The objective of the working group was:

- To study the impact of the global economic downturn in the Americas and its implications for development, poverty alleviation and regional economic cooperation; and
- To identify ways in which the countries of the Americas can work together to overcome the challenges presented by current economic conditions.

PRESENTATION

The first session of the Working Group on the Financial and Economic Crisis began with a presentation by Vinita Watson, Executive Director for Canada at the Inter-American Development Bank. Ms. Watson's presentation began with an overview of the financial and economic crisis, with a focus on its effect in Latin America. She noted that the crisis represented a significant external shock to the region. The economic downturn in industrialized countries reduced import demand for goods produced in Latin America; the decline in commodity prices reduced the value of some of the region's most important industrial and trade goods; and international financial conditions impacted on the availability of credit across the region.

At the same time, however, Ms. Watson noted that Latin America as a whole was in a much stronger position to weather this crisis compared to other economic crises in the recent past. Specifically, unlike the financial crisis in 1997-1998, economic fundamentals in Latin America were strong prior to the onset of the present downturn. The region's major economies had an overall fiscal surplus; public debt levels had fallen dramatically since 2002; international reserves were high; and dependence on foreign-currency debt holdings was low.



As a result of the improved macroeconomic fundamentals in the region, Ms. Watson argued that Latin America was in a much better position to pursue countercyclical monetary and fiscal policies and thus to mitigate the impact of the adverse external shocks on the region's economies. Evidence of this position was the fact that many countries in the region were able to introduce fiscal stimulus packages and lower interest rates in an effort to improve access to credit.

Ms. Watson argued that these stimulative measures will help lessen the impact of the crisis and that, as a result, the recession in the region will be short-lived and that Latin America will return to positive growth in 2010.

The second part of Ms. Watson's presentation focused on recent economic developments around the world. Specifically, she noted that there were early signs that the worst of the crisis may be over and that the global economy was beginning on the road to recovery. Financial market conditions are improving and some recovery is evident in world commodity markets and manufacturing as well.

Ms. Watson also cautioned working group participants that, notwithstanding the signs of "green shoots" in the economy, some countries in the region were facing particularly difficult challenges. She highlighted specifically those countries dependent on remittances and tourism among those where the challenge of economic recovery will be most difficult.

The final section of Ms. Watson's presentation focused on the policy opportunities the crisis presents to the Americas. She argued that to avoid the errors of previous crises, the region's governments should work to adopt coordinated and mutually informed policy responses. The focus should be on fiscal policy, financial regulation, the re-establishment of capital flows, support for intraregional trade and ensuring measures are taken to avoid protectionism. Ms. Watson especially stressed that differences on trade issues should not end up as obstacles to regional cooperation.

To open the working group's discussions, Ms. Watson concluded her presentation by suggesting two questions for discussion. First, she challenged participants to consider how prepared the region would be if the economic recovery is long and slow: what would be the specific challenges of a 4-5 year recovery period? How would a slow recovery affect issues such as poverty and social cohesion? Second, she stressed her view that trade was a critical component to a lasting economic recovery in the region. With that in mind, she asked participants to consider where they thought the policy opportunities lay for increasing trade and economic integration in the Americas and for capturing the benefits that trade offers the region.

DISCUSSIONS

Following Ms. Watson's presentation, the workshop's participants began their deliberations. Discussions were open, cordial and spanned a wide range of topics. In addition to sharing their views and observations on the causes and impacts of the crisis on their respective economies, participants also discussed the challenges and issues they face as their economies begin to recover. The focus of those discussions gravitated towards three general themes: financial sector reform, regulation and oversight; trade, competition and economic integration; and strategies and best practices for ensuring a speedy and sustainable economic recovery. Participants were in general



agreement that it is important that all countries in the Americas need to work together, to learn from past mistakes, and to take measures to avoid another, more severe, crisis in the future.

Financial services reforms and regulation were a major point of discussion in the workshop's deliberations. The debate touched on a wide range of topics, including the need for basic transparency in financial services markets; and the need for consumer education on the nature and inherent risk of mortgages and financial services instruments. Several participants suggested that an international regulatory system or body was needed to help prevent another, similar crisis in the future. However, some Parliamentarians expressed concern that the views of smaller economies could be overlooked in the creation of such a regulatory/oversight body. Others believed it was critical that in any such regulatory body, all countries should be held to the same compliance standards.

Workshop participants also discussed the importance of trade and economic integration in ensuring a quick recovery from the current global recession. It was noted that all countries of the Americas must resist the temptation to impose protectionist measures that inhibit trade, but instead should work more closely together by removing the barriers to trade and by exploring opportunities for closer economic integration. It was suggested that economic integration within the Americas was a critical component of a recovery strategy and would be key in accelerating economic growth and alleviating poverty across the hemisphere. Some discussion also touched on the need for increased attention to be paid to microeconomic policies, which are also critically important as we seek economic recovery.

Parliamentarians identified several obstacles to the goal of increasing economic integration and trade ties. These include the need to reduce the costs of trade; to provide trade facilitation and capacity-building to developing countries; to build appropriate transportation infrastructure; and to improve access to trade financing, especially given the effect of the crisis on reducing access to credit in the real economy.

The relationship between trade and poverty was another subject of the workshop's deliberations. Participants observed that trade can play a critical role in economic development and poverty alleviation, but that steps needed to be taken to ensure that the poor benefit from trade. It was noted that economic crises have a disproportionate impact on the impoverished and that government policies need to ensure that the economic recovery betters the lives of the region's poor.

A related topic of discussion was the need to improve participation in the formal economy. Several Parliamentarians noted that informal sector employment lacks the security, benefits and basic rights associated with participation in the formal economy. Some also observed that informal employment was a major contributor to poverty and income inequality in Latin America. Participants discussed strategies to encourage participation in the formal economy and to eliminate informal employment. Suggestions included providing a minimum guaranteed wage to break the poverty cycle in the region.

The third general subject of discussion was strategies for overcoming the economic downturn. Parliamentarians from several countries shared their best practices for addressing the challenges brought on by the crisis. It was noted that each country in the Americas is unique and, as such, will require unique mechanisms and strategies for dealing with their specific issues and concerns. Most



participants favoured fiscal stimulus packages and deficit spending to spark economic growth, although some cautioned against returning to an era of persistent deficit spending; if too lax, expansionist economic policies can lead to hyperinflation and economic destabilization.

In addition to the participants from across the Americas, the workshop sessions were attended by a delegation of observers from China. The Chinese delegation addressed the workshop on the second day of discussions, providing an overview of China's views on the financial and economic crisis and discussed the strategies and policies China has implemented to mitigate the effects of the crisis and the successes it has achieved. The Chinese delegation also fielded a number of questions on topics such as global trade imbalances; its plans for increasing domestic consumer demand; prospects for a global currency; and its views on building trade relations with the Americas.

RECOMMENDATIONS

Adopted by the Plenary Assembly of FIPA on September 15, 2009

Based on the deliberations of the Working Group on the Financial and Economic Crisis, which took place in the framework of the 6th Plenary Meeting of FIPA in Ottawa, Canada, September 13-15, 2009,

THE FIPA PLENARY ASSEMBLY makes the following recommendations:

1. That countries in the Americas should make every effort to promote economic integration and cooperation across the region. This integration should include increased cooperation in trade, infrastructure development, innovation and technology, and financial services regulation.
2. That FIPA member countries should explore the possibility of harmonizing legislation concerning investment rules, conditions, and transparency across the hemisphere to ensure sustainable development and to ensure that the benefits of investment are shared by all. No country should fail to attract foreign direct investment because investment rules are more lax elsewhere.
3. That FIPA member countries should make every effort to work together towards a satisfactory conclusion to the ongoing Doha Development Round of multilateral trade negotiations at the World Trade Organization (WTO). At the same time member countries should work to strengthen trade within the region, and to eliminate tariffs and protectionist measures across the Americas.
4. That FIPA member countries should ensure that they act in a fiscally responsible manner. In the short term, temporary deficit spending can be an appropriate countercyclical policy response to economic downturns. However, based on their past experience, countries in the Americas should avoid returning to the practice of persistent annual deficits over the long term.
5. That the countercyclical policies implemented by countries in the Americas should aim to preserve salaries and employment across the region, respecting national laws while also



promoting international standards for working conditions such as those contained in the conventions of the ILO.

6. That, given the importance of a strong central bank in building trust in financial markets, FIPA member countries should work to preserve the autonomy of their central banks and federal reserve agencies.
7. That FIPA member countries should be encouraged to review their legislation in an effort to strengthen institutions dealing with control and oversight of financial institutions and their products, as well as rating agencies, to avoid speculative measures, conflicts of interest and lack of transparency in decision making in capital markets.
8. That FIPA member countries should implement public policies to encourage, as part of public-private alliances, the activation or creation of productive units that will create formal employment in a manner that promotes sustainable development. At the same time, FIPA countries should also promote policies, incentives and programs that will result in the greatest possible development of small and micro enterprises, ensuring their participation and competitiveness in internal and external markets.

The Honourable Luiz Carlos Hauly

Member of the Brazilian Chamber of Deputies and President of FIPA

Working Group Chair

Michael Holden, Analyst, Library of Parliament

Rapporteur