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Press the reset button on Latin America

US trade policy has been disastrous for Latin America. On his visit this week, Obama should vow to reshape it

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Barack Obama goes to Latin America this week, first to Mexico then to Trinidad to join other leaders from the western hemisphere at the summit of the Americas. He has a golden opportunity to reshape US-Latin American relations damaged by neglect and political meddling. His secretary of state has travelled the world vowing to "press the reset button" in relations with foreign nations.

Obama should press the reset button on trade policy with Latin America. Many Latin American governments already have. Under the Washington consensus, US leaders prescribed trade and investment liberalisation along with austere fiscal and monetary policy. This triggered a backlash that brought new leaders elected by broad constituencies who saw little benefit from these economic policies.

The historic backlash against the Washington consensus is not without justification. According to a soon-to-be-released study by the Inter-American Development Bank, trade and investment liberalisation in Latin America has had only a small impact on economic growth and has accentuated inequality in the region. Indeed, only one country has had a faster growth rate since nations in the region began experimenting with Washington's prescriptions in the early 1980s. That country is Chile, which has strayed from the Washington consensus in significant ways.

Mexico, Obama's first stop on this trip, is emblematic of the failure of US trade policy. Despite a four-fold increase in exports and a tripling of foreign investment from the US since Mexico signed the North American Free Trade Agreement (Nafta), Mexico's economy has seen neither robust growth nor prosperity. Economic growth in per capita terms has been just over 1.5% annually, and poverty and inequality remain high. Job growth has been anaemic, leading a half-million Mexicans to flee to the US each year for a better life. Many others migrate to Mexican cities and tourist areas to work in the informal economy.

Mexico's disappointing experience is not unique, as many Latin American leaders will tell Obama. Over the past five years, in collaboration with distinguished panels of Latin American economists, we carried out three comprehensive assessments of the impacts of the Washington consensus on investment, agriculture and the environment.

A recent report by our Working Group on Development and Environment in the Americas found that investment liberalisation is partly to blame for the slow economic growth in the region. According to our statistical analyses, foreign investment in Latin America increased significantly over the past 20 years but wiped out many local firms and contributed to an overall decrease in total investment.

Despite a tripling of foreign investment in the region since the 1970, total investment as a percent of GDP has declined from 24% in the 1970s to 19% today - far below the 25%

recommended by the recent Spence Commission for sustained economic growth in developing countries. Rather than locating in Latin America and spurring new economic activity, foreign firms largely operate as enclaves with limited connections to the domestic economy.

In its survey on agriculture, the Working Group found that the promise of liberalisation - the ability to expand markets for export agriculture - was overstated. Most countries cannot break into to the northern-dominated markets for agricultural commodities. Even those that can, such as soy-producers in South America, do so with limited economic development impact, in part because such capital-intensive agriculture creates few jobs.

If the promises of agro-export growth were overblown, the perils of liberalisation to small-scale farmers were widespread, damaging both rural communities and national food security. As the Working Group found in country after country, local farmers producing staple foods were systematically displaced by artificially cheap imports, creating vulnerabilities that became all too clear when food prices spiked last year.

An earlier Working Group report concluded that "free-trade policies have taken a heavy toll on the environment." Latin America is mining its natural resources ever more intensively, a trend that has only accelerated with the commodities boom. At the same time, import surges have threatened sustainable livelihoods and biodiversity, and industrial pollution has gone largely unchecked due to lax regulation.

Obama, who has pledged to reform US trade policy, has a historic opportunity to change course in Latin America. He should press the reset button, listen to his fellow heads of state and forge a new consensus that enshrines the notion that each nation in the hemisphere has the right to follow its own path to development, rather than a path dictated by Washington.

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