April 12, 2011

Ricardo Hausmann
Director, Harvard University Center for International Development
John F. Kennedy School of Government, Mailbox 34
79 JFK Street
Cambridge, MA 02138

Dear Mr. Hausmann:

Thank you for the recent open letter from economists regarding the capital transfer provisions in U.S. free trade agreements (FTAs) and bilateral investment treaties (BITs).

I read your letter with great interest and I appreciate the concerns that you raised. While foreign capital can bring benefits to emerging market economies and be an important contributor to growth and development, the experience of the last decades shows that large swings in capital flows can create significant policy challenges.

Policy makers in emerging economies have a range of policy measures available to help mitigate the risks that can accompany surges in capital inflows. In general, we believe those risks are best managed through a mix of fiscal and monetary policy measures, exchange rate adjustment, and carefully designed non-discriminatory prudential measures, such as bank reserve or capital requirements and limitations on exposure to exchange rate risk.

The framework we use to negotiate FTAs and BITs is designed to establish predictable rules to govern trade and foreign investment such as the right to make investments through capital transfers and to repatriate capital and investment returns, while providing the flexibility for governments to mitigate the risks that can accompany large swings in capital flows.

We believe that this framework strikes the right balance and we will seek to preserve it.

Sincerely,

Timothy F. Geithner
cc: The Honorable Hillary Rodham Clinton
The Honorable Ron Kirk
Mr. Dani Rodrik
Mr. Joseph Stiglitz
Mr. Arvind Subramanian
Ms. Nancy Birdsall
Mr. Olivier Jeanne
Mr. Pranab Bardhan
Mr. Lance Taylor
Mr. Jose Antonio Ocampo
Ms. Stephany Griffith-Jones
Mr. Ethan Kaplan
Mr. Dimitri B. Papadimitrou
Ms. Ilene Gravel
Ms. Alice Amsden
Mr. Gerald Epstein
Mr. Kevin P. Gallagher
Ms. Sarah Anderson
Mr. Arindrajit Dube
Mr. William Miles
Mr. Adam Hersh
Mr. James K. Galbraith
Mr. Paul Blustein
Mr. Anton Korinek