

The Americas in 2009

Economic Recovery and Political Division



XIII Annual Conference

On Trade and Investment in The Americas

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Inter-American Dialogue

The Inter-American Dialogue is the leading U.S. center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue brings together public and private leaders from across the Americas to address hemispheric problems and opportunities. Together they seek to build cooperation among Western Hemisphere nations and advance a regional agenda of democratic governance, social equity, and economic growth.

The Dialogue's select membership of 100 distinguished citizens from throughout the Americas includes political, business, academic, media, and other nongovernmental leaders. Twelve Dialogue members served as presidents of their countries and more than two dozen have served at the cabinet level.

Dialogue activities are directed to generating new policy ideas and practical proposals for action, and getting these ideas and proposals to government and private decision makers. The Dialogue also offers diverse Latin American and Caribbean voices access to U.S. policy debates and discussions. Based in Washington, the Dialogue conducts its work throughout the hemisphere. A majority of our Board of Directors are from Latin American and Caribbean nations, as are more than half of the Dialogue's members and participants in our other leadership networks and task forces.

Since 1982—through successive Republican and Democratic administrations and many changes of leadership elsewhere in the hemisphere—the Dialogue has helped shape the agenda of issues and choices in inter-American relations.

Economic Recovery and Political Division: The Americas in 2009

Latin America's ability to dodge the worst effects of the global financial downturn should not be taken as a sign that the region's problems are behind it. The hemisphere's agenda remains a full one, and includes the serious social development challenges of inequality and poverty, the critical problem of how to address the violence wrought by transnational criminal organizations, including drug trafficking networks, the role of energy—particularly oil, and the future of regional integration. These challenges unfold against a shifting political backdrop.

On September 9 and 10, 2009, more than 300 people gathered to discuss these challenges—and others—at the XIII Annual Corporación Andina de Fomento (CAF) Conference on Trade and Investment in the Americas. CAF, the Inter-American Dialogue, and the Organization of American States (OAS) organize the annual conference as a platform to identify issues affecting the region and to make policy recommendations. Participants included U.S. and Latin American government officials, international economists, lawmakers, policy analysts, journalists, and corporate and financial leaders. The aim of the sustained collaboration is to bring a detailed review of hemispheric affairs to Washington, D.C. officials and opinion leaders.

Discussions at the two-day conference detailed the region's evolution over the past thirteen years. New players, notably China, have emerged even as Latin America has become less dependent on the United States. Democracy has strengthened and much-needed institutional changes have taken place, better positioning the region to face the global financial crisis and other challenges. Still, Latin America and the Caribbean need to improve global competitiveness, eliminate the lopsided distribution of wealth, and seek coherent long-term

approaches to hemispheric challenges such as immigration, integration, global warming, trade, and energy security.

Enrique García, executive president of CAF, opened the conference by noting that Latin America is coping better with the global economic crisis than would have been expected in the past. Optimistic about the cooperative tone of U.S. president Barack Obama, he advocated regional and global solutions to problems facing the Americas. José Miguel Insulza, secretary general of the Organization of American States, joined García in underscoring the region's continuing commitment to democracy but cautioned that work is needed to build rule of law and strong institutions.

“We have to talk about how we really stabilize our region so it is a region where democracy has fewer ups and downs ... a region safe and successful for investment,” Insulza said.

A New Political Landscape

The political platform for progress in the region is a mixed one. Obama's election raised the specter of a new, energetic, and collaborative approach to intra-regional relations. Strengthened democratic institutions, as well as stable political transitions, have set the stage for a more dynamic partnership. But the fruits of democracy are not enjoyed by everyone, and the Americas remain marked by unsettling challenges to the rule of law. There is a trend toward *presidencialismo*, a bolstering of the executive office of government to the detriment of the parliamentary and judiciary branches. At the same time, traditional political parties have weakened.

The troubling ouster of Honduran president Manuel Zelaya prior to the completion of his term in office exposed the fragility of Latin American democracy, even as it revealed inherent weaknesses in OAS safeguards set up to avert such threats.

Latin America is coping better with the global economic crisis than would have been expected in the past.

In an upbeat keynote address, U.S. senator Richard Lugar said that Obama has eschewed the historic legacy of U.S. paternalism in lieu of “an equal partnership based on mutual respect and common interests.” Lugar, an Indiana Republican, is a leading Latin America expert within the Senate. He said the unanswered challenge for the United States has been how to play an appropriate and effective role in strengthening cooperation on issues ranging from “security to trade to human rights, but mostly regarding democratic governance.”

The White House has eliminated barriers affecting family travel and remittances to Cuba. And it won accolades for its collaborative tone at the Summit of the Americas in Trinidad and Tobago, where the summit’s “themes of responsibility” included serious dialogue on human prosperity and the need for social safety networks in the Americas. It is also noteworthy that transnational crime and violence were at the center of the discussion. The OAS’ complementary approach to the problem, the Inter-American Social Protection Network (IASPN), was unveiled in New York on September 22, 2009.

Still, participants at the CAF conference took issue with the Obama administration’s slow progress on serious issues facing the region. U.S. officials, for example, said the White House would forge a new drug policy marked by prevention and arms control and that the policy would play out in partnership with countries in the region. However, few details were revealed and the official policy was not to be released until February 2010.

Within Latin America, the most dramatic challenges—including the fight against crime and drug networks, the creation of jobs, the elimination of corruption, the lack of transparency, and persistent poverty—have put governments’ effectiveness under scrutiny. New political players have emerged and with them have come new demands.

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*— U.S. Senator
Richard Lugar*

One of those new actors is organized crime. The magnitude of drug-related violence, as well as narcotraffickers' penetration of the political arena, has encouraged strong-arm solutions that are detrimental to democracy.

Brazil stands out as the country where political transition promises continuity.

Increasingly, Latin America is becoming a region with strong executive branches of government and weak political parties, a trend that opens the door to “elected authoritarians.” Some populist governments offer new solutions, but they have not succeeded in being inclusive nor have they strengthened democratic institutions. Populism also serves as an obstacle to regional integration.

Still, there are many bright spots. Brazil stands out as the country where political transition promises continuity. President Luiz Inácio Lula da Silva is ineligible to seek another term in office, but the government that follows his is not expected to dramatically change the direction of the country.

The Quest for Regional Stability

Latin America is no longer overshadowed by armed conflicts, yet violence remains a serious and destabilizing factor. International criminal networks skillfully exploit the open channels created by global trade. They also infiltrate and weaken democratic institutions, including the judiciary in some countries. Youth gangs—or *maras*—are growing in response to the region's inability to offer jobs or a future to its disproportionately young and poor population. The situation is worsened by the global economic crisis, which has caused a slowdown in growth in the region, a contraction in much-needed remittances, and a setback in efforts to reduce poverty.

The devastating social and fiscal costs of these criminal networks offer a powerful argument in favor of a regional response. “No single country is able to come up with sufficient

solutions. Ironically, and sadly, this is unfolding at a time when integration is particularly difficult,” said Eduardo Stein, former vice president of Guatemala.

The U.S. role in combating these crime networks, in particular drug trafficking, is a source of great debate. In March 2009, en route to her first diplomatic trip to Mexico, Secretary of State Hillary Clinton signaled a turnabout in U.S. drug policy by saying that the responsibility does not fall solely on supplier countries in Latin America and the Caribbean. At the CAF conference, U.S. drug czar Gil Kerlikowske echoed that position, calling the drug violence a public health issue as much as a law-enforcement challenge.

“The United States accepts a doctrine of shared responsibility and acknowledges that it is the [United States’] duty to reduce drug use and the flow of guns linked to it,” said Kerlikowske, chief of the White House Office of National Drug Control Policy. “A U.S. policy based solely on controlling the flow of drugs is no longer feasible. More emphasis will be placed on prevention and treatment.”

The center of drug violence in Latin America has shifted from Colombia to Mexico, but Kerlikowske said solutions must look beyond a single country—otherwise traffickers will simply move into neighboring nations. The Merida Initiative, which gives U.S. anti-drug assistance to Mexico, includes money for Central America.

In countries where drug traffickers are most powerful, Kerlikowske said the United States seeks to support institutions that are corruption free. He advocated knowledge sharing among the United States, Latin America, and the Caribbean. Transferable U.S. strategies encompass drug courts and the eTrace firearms-tracing database, which will be shared with Mexico as a way to identify the source of confiscated weapons during anti-drug operations.

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Energy Efficiency and Security

The region runs the risk of insufficient oil resources.

As with drug trafficking, a hemisphere-wide approach also is advocated when it comes to energy policy and security, which emerged among the top issues on the agenda at the Summit of the Americas. But U.S. dialogue on energy has been slow, creating a disjunction between the importance assigned to the issue and the move to tackle it. A more dynamic discussion may begin once U.S. government agencies leading energy and climate change issues are fully staffed. And it is expected that energy will be addressed as part of a package with global climate change.

It behooves the United States to begin serious discussion as its top petroleum suppliers in the region are undergoing notable shifts in production. Canada's oil sands development is experiencing a push back from environmentalists, Mexico's ban on private investment in oil development is hurting its energy sector, and Venezuela's petroleum production has declined significantly.

This recalibration is part of a greater trend. In ten years, Argentina, once an oil exporter and now a net importer, may no longer have oil resources. Chile, meanwhile, will have to pay to import liquefied natural gas. Even Venezuela now imports natural gas from Colombia.

Brazil's Petrobras has been lauded for its outstanding performance and transparency. However, there is concern that the region's other state-owned energy companies need reform. The Latin America and Caribbean region also needs to seriously examine its energy efficiency and the diversity of its energy grid. Otherwise, the region runs the risk of insufficient oil resources.

This concern is exacerbated by the lack of regional integration. Political disputes impeded Chile and Bolivia from creating an energy agreement. The energy-sharing relationship between Chile and Argentina disintegrated. And the Gran Gasoducto del Sur, the proposed natural gas pipeline to connect Venezuela,

Brazil, and Argentina, does not have the political, popular, and investment consensus it needs. Latin America's natural gas producers, in fact, are selling their energy to Africa, rather than to other countries in their own hemisphere. This outreach to far-flung markets rather than neighboring nations signals the failure of regional energy integration. Much of the process has been muddled by the politicization of energy policy and relationships.

Energy policy begs a multinational and cooperative approach. Brazil could play a broader leadership role in the energy dialogue, both as a petroleum producer and a source of alternative energy. Mexico also could shoulder a strategic position when it comes to energy security, provided it were willing to upgrade its aging infrastructure. The United States, meanwhile, is well positioned to provide the region with important assistance in energy research, energy conservation, and alternative energy. Already, it is working with Peru on energy conservation and with Chile on alternative energy. A joint wind energy center in Mexico has been discussed.

Energy policy begs a multinational and cooperative approach.

Economics, Integration and Trade

Latin America may be showing economic resiliency, but it has still fallen far behind other regions in terms of competitiveness, especially when it comes to global trade and foreign investment. Inadequate headway on regional integration, infrastructure, logistics, education, and technology are reasons. Challenges going forward include the region's ongoing vulnerability to external shocks and Latin Americans' failure to save and invest at adequate levels.

Economic crises are measured in the short term by looking at GDP. Alicia Bárcena, executive secretary of the UN Economic Commission for Latin America and the Caribbean (ECLAC), said her organization expects an unprecedented 81 percent of the world's countries to register negative GDP growth in 2009. And it will take at least three to four years to begin to recover.

Recovery takes twice as long for social indicators as it does for economic ones.

The long-term impact of the global recession is more complicated to quantify, especially in terms of the social challenges—an area of great concern for the region. ECLAC studies find that recovery takes twice as long for social indicators as it does for economic ones. That suggests that social policies should be given high priority. Because of expectations that the economic recovery will be jobless, unemployment should be viewed as a critical issue—especially because unemployment and under employment were already a pre-crisis problem, particularly among young people in the region.

Some countries are responding to the financial slowdown by cutting social spending. This will negatively affect recovery but may be difficult to avoid. Even as governments most need to embrace stimulus plans, their revenues are falling.

The region should pay particular attention to the buffers that kept it from being hit more dramatically by the global economic downturn. Latin America's currencies were solid, banking systems were stronger, and fiscal policies were improved. The region also has been helped by social protection structures in place when the world economy began its downward spiral. These include conditional cash transfer programs that target the unemployed, families with children, and people living in poverty.

CAF conference participants were cautioned not to misinterpret trade's role in the economic upheaval. Countries in the Americas that were most hurt by the economic storm were not battered because they were part of the global trading network. Although trade exposed them to fluctuations in the world economy, their position as global traders likely will help them rebound faster as that economy improves.

In the meantime, the region needs to begin to diversify its trade—including with China—beyond commodities. And a stronger technology policy could improve production and help exports.

Like energy policy, a comprehensive regional trade strategy has been blocked by the Americas' inability to effectively embrace integration. Past attempts at integration were not inclusive; some did not properly link the region to the global marketplace. Political ideology too often has been an unconquerable obstacle. Conference participants discussed the role intergovernmental organizations play in providing the financial and political resources for integration.

The region needs to diversify its trade—including with China—beyond commodities.

Everett Eissenstat, assistant U.S. trade representative for the Americas, rebutted claims that free trade agreements with Latin America were dead. He said the Obama administration would push forward on long-delayed trade accords with Panama and Colombia provided those agreements carried labor safeguards and other protections. He provided no time frame for approval.

Eissenstat also said the United States was not concerned by the proliferation of subregional trade blocs in Latin America. He said alliances such as Southern Cone trade bloc Mercosur, the Venezuelan-led Bolivarian Alliance for the People's of Our America (ALBA), and the Union of South American Nations (UNASUR) could co-exist with U.S. trade agreements between and among countries. He also said protectionism "is not the answer to our economic turmoil at this time" adding that it works against Latin America's best interest to turn to protectionist measures.

Still, the trade official did not expect Congress to lift the controversial tariff on U.S. imports of Brazilian ethanol.

Looking Forward

The global economic crisis has helped reveal areas of opportunity in Latin America. The region offers favorable conditions for developing agro-industry and improving regional transportation links. It is also receptive to technology investment, as evidenced by the speed with which Latin American technology companies have become global enterprises. Inter-American Development Bank president Luis Alberto Moreno called upon international investment banks to consider the importance of supporting projects at the state and local levels.

But the region has much work still to do. Massive infrastructure investment is overdue. Early childhood initiatives, better teacher training, and an emphasis on work skills are also needed. Chile's early childhood development programs were held up as models, as was Peru's decision to make test scores public. Some panelists at the conference said the education focus should concentrate on secondary education.

In an era of globalization, Latin America's political landscape is not divorced from the international political context. The region has seen tremendous political shifts over the past decade although it still suffers from a dearth of long-term vision. It is marked by a great need to harmonize state institutions with participative democracy, particularly in light of the growing strength of the executive branch of government. And the ouster of the Honduran president exposed an important weakness in the OAS mandate: The organization can only formally respond to threats to democracy when it is invited to do so by the executive branch of a government. It cannot act when other branches of government—the legislature or the judiciary—are threatened.

Moving forward, the region must begin to examine the effects of the current global economic downturn, strengthen its democratic institutions, and embrace long-term planning beyond a single election cycle. Latin America and the Caribbean must also address its inequality gap and productivity gap.

**Corporación Andina de Fomento (CAF)
XIII Annual Conference on
Trade and Investment in the Americas**

September 9 and 10, 2009

Carnegie Endowment for International Peace
1779 Massachusetts Avenue, NW, Washington D.C.

Agenda

WEDNESDAY, SEPTEMBER 9

Session I. Introductory Remarks

Enrique García, Executive President, Andean Development Corporation

Jose Miguel Insulza, Secretary General, Organization of American States

Peter Hakim, President, Inter-American Dialogue

Session II. The Obama Administration's Agenda in the Region

Chair: **Patricia Janiot**, Senior Anchor for CNN en Español

Trade and Investment Issues

Everett Eissenstat, Assistant USTR for the Americas

Energy Cooperation

Jeffrey Davidow, President, Institute of the Americas

Security Issues

Gil Kerlikowske, Chief, White House Office of National Drug Control Policy

Session III. Latin America's Agenda (Development, Integration and Energy)

Chair: **Diego García-Sayán**, Executive Director, Andean Commission of Jurists

Carlos Mesa, Former President of Bolivia

Eduardo Stein, Former Vice President of Guatemala

Genaro Arriagada, Former Minister of the Presidency of Chile

THURSDAY, SEPTEMBER 10

Session I. Keynote Address

Chair: **José Miguel Insulza**, Secretary General,
Organization of American States

Keynote Speaker: **Senator Richard Lugar** (R-IN)

Session II. Latin America's Challenges beyond the Global Economic Crisis: the Day After

Chair: **Enrique García**, Executive President, Andean Development
Corporation

Luis Alberto Moreno, President, Inter-American Development Bank

Alicia Bárcena, Executive Secretary, United Nations Economic
Commission for Latin America and the Caribbean

José Antonio Ocampo, Professor, Columbia University

Augusto de la Torre, Chief Economist for LAC, World Bank

Session III. Latin American Politics and Elections

Chair: **Michael Shifter**, Vice President for Policy,
Inter-American Dialogue

Paulo Sotero, Director, Brazil Institute of the Woodrow Wilson
Center

Guillermo Fernández de Soto, Former Minister of Foreign Affairs
of Colombia and Secretary General of the Andean Community

Ana María Sanjuan, Professor, Universidad Central de Venezuela

Lázaro Cárdenas, Former Governor of Michoacán, Mexico

Working Lunch: The Challenges for the Consolidation of Democracy in the Region and the Future of Hemispheric Integration

Chair and Commentator: **Rodrigo Pardo**, Director,
Revista Cambio (Colombia)

Keynote Speaker: **José Miguel Insulza**, Secretary General, OAS

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Profiles of Speakers

Genaro Arriagada served as minister of the presidency of Chile and ambassador to the United States.

Alicia Bárcena is executive secretary of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). She previously served as under-secretary-general for management for Secretary-General Ban Ki-moon and acting chef de cabinet for Secretary-General Kofi Annan.

Lázaro Cárdenas served as governor of Michoacán in Mexico from 2002 to 2008.

Jeffrey Davidow is president of the Institute of the Americas. He was U.S. ambassador to Mexico and Venezuela and served as assistant secretary of state for Western Hemisphere affairs.

Augusto de la Torre is chief economist for the Latin America and Caribbean region at the World Bank. He was head of the Central Bank of Ecuador.

Everett Eissenstat is the assistant U.S. trade representative for the Americas. Previously he served as the chief international trade counsel to the chairman of the U.S. Senate Finance Committee.

Guillermo Fernández de Soto was minister of foreign affairs of Colombia and secretary general of Comunidad Andina. He also served as Colombian representative to the International Criminal Court and ambassador to the Netherlands.

Enrique García is president of the Corporación Andina de Fomento (CAF).

Diego García-Sayán is judge and vice president of the Inter-American Court of Human Rights. He was minister of justice and minister of foreign affairs of Peru.

Peter Hakim is president of the Inter-American Dialogue.

José Miguel Insulza is secretary general of the Organization of American States. He served as minister of foreign affairs and minister of the interior of Chile.

Patricia Janiot is a senior anchor for CNN en Español and serves as the advisor to the senior vice president of the network.

Gil Kerlikowske is director of the White House Office of National Drug Control Policy. Previously he headed Seattle's police force.

Richard Lugar is a U.S. senator (R-IN). He is the minority leader of the Foreign Relations Committee and a member and former chairman of the Agriculture, Nutrition and Forestry Committee.

Carlos D. Mesa was president of Bolivia.

Luis Alberto Moreno is president of the Inter-American Development Bank. Previously he served as Colombian ambassador to the United States and minister of economic development in Colombia.

José Antonio Ocampo is a professor at Columbia University. He has been minister of finance of Colombia; chairman of the Central Bank of Colombia; United Nations under-secretary general for economic and social affairs; and executive secretary of UN ECLAC.

Rodrigo Pardo is director of *Cambio* magazine in Colombia and previously served as editor-in-chief of *Semana*.

Ana María Sanjuán is professor of Latin American politics and relations at the Universidad Central de Venezuela and member of Centro de Estudios Sociales de Venezuela.

Michael Shifter is vice president for policy at the Inter-American Dialogue.

Paulo Sotero is the director of the Brazil Institute of the Woodrow Wilson Center. For the last seventeen years, he was the Washington correspondent for *Estado de São Paulo*, a leading Brazilian daily newspaper.

Eduardo Stein was vice president of Guatemala.

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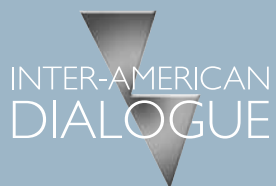
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