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Trade and Investment in the Americas

X Anniversary Conference

Corporación Andina De Fomento (CAF)

Organization of American States

INTER-AMERICAN DIALOGUE

Corporación Andina de Fomento (CAF)

Tenth Anniversary
Corporación Andina de Fomento (CAF) Conference

Trade and Investment in the Americas

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Foreword

Last year, we celebrated the tenth anniversary of the Corporación Andina de Fomento (CAF) Conference on Trade and Investment in the Americas. The 2006 conference brought together some 200 people—U.S. and Latin American government officials; U.S. Congress members and staff; leading policy analysts and journalists; and corporate and financial leaders. Over two days, participants engaged in lively, wide-ranging discussions about the Andean region and Western Hemisphere affairs.

As we look ahead to our 2007 conference, uncertainty is the dominant feature of the Andean landscape. The region's economic performance has been strong in recent years. Every Andean country is growing, most at higher rates than at any time in the past two decades, and poverty is declining in most. But, the current turmoil in global financial markets is a source of concern. It could dampen international economic growth and cut short the boom in commodity prices that has been so critical for the region's recent robust expansion.

Peru now has to repair the devastation caused by the destructive earthquake that struck the country last month. President García is confronting the tragedy at a time when his popularity has fallen sharply. Peru's economy continues to grow at a sturdy pace, but the benefits are not yet reaching many of the country's poorest areas, and discontent is rising. Although no one can be fully sure, it is very likely that the U.S. Congress will ratify the U.S.-Peru free trade agreement later this year—which should provide a further economic boost to the country.

Ecuadorans go to the polls on September 30th to elect the members of a Constituent Assembly that will draft a new constitution and may replace Congress as the nation's legislative body. The election will be a test of President Rafael Correa. If he achieves a clear victory by winning a solid majority of seats in the new assembly, his government's authority will be strengthened and allow him to advance his agenda of change—which is likely to be politically divisive. A mixed outcome could diminish his ability to govern and leave the government vulnerable to the instability that has characterized Ecuadoran politics for years—or it could force him to reach consensus with different political forces.

Bolivia's Constituent Assembly missed last month's deadline for preparing a new constitution, which is now scheduled to be completed in mid-December. Politics have become increasingly polarized in the country along regional, ethnic, and economic lines, and increasing political and social turmoil could result. Although the Bolivian economy is healthy and growing, President Morales is having a difficult time governing this historically unstable country.

Venezuelan President Hugo Chávez is pursuing an ambitious agenda at home and abroad. In advancing his goal of "21st Century Socialism," he has nationalized Venezuela's largest telecom and electricity companies, imposed new restrictions on foreign oil companies, and refused to renew the license of the nation's most popular television network (Radio Caracas Television). President Chávez has also proposed a series of constitutional reforms—ending presidential term limits, eliminating Central Bank autonomy, and reducing the authority of governors and mayors. These changes, which are likely to be approved by the pro-Chávez National Assembly in coming months, would further concentrate power in the presidency. The government's economic policies have reduced poverty and enjoy popular support, but overspending may be producing an unwanted rise in inflation.

Colombia's success in improving security across the country and its advances in demobilizing AUC paramilitary fighters have spawned a new set of challenges. Senior members of President Alvaro Uribe's administration and supporters in Congress have been linked to the AUC. No progress has been made in opening negotiations with the FARC, Colombia's main guerrilla force. And extensive drug eradication and interdiction efforts have made no real dent in production. President Uribe, nonetheless, enjoys wide political support, and the Colombian economy is expanding rapidly. Colombians are frustrated by the almost certain postponement of U.S. congressional consideration of the U.S.-Colombia FTA to next year or beyond—even as Washington moves to approve renewed annual support of more than $500 million for Colombia's anti-drug and anti-guerrilla policies.

The annual CAF conference is jointly sponsored by the Corporación Andina de Fomento, the Organization of American States, and the Inter-American Dialogue. The aim of this sustained collaboration is to demonstrate the importance of U.S. economic and political relations with the Andean region and Latin America more broadly, and to provide a detailed review of broader hemispheric economic affairs to Washington officials and opinion leaders. We are pleased that, year after year, top analysts and key decision makers from the United States, Latin America, the Caribbean, and Canada have agreed to take part in the CAF meeting, and that the interest of the Washington policy community in the region continues to grow.

CAF President Enrique García has provided continuing commitment and intellectual guidance to the conference from its inception in 1997. We are also grateful for the leadership of OAS Secretary General José Miguel Insulza. We owe a particular debt of gratitude to Ana Mercedes Botero of CAF, who has played a central role in the design and organization of the conference from the outset. We appreciate as well the valuable contributions of CAF's María Taín and the Dialogue's Megan Fletcher for managing conference preparations. Special thanks are also due to Dialogue intern Daniel Balke, who drafted this report.

Peter Hakim
President
Inter-American Dialogue

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OPENING REMARKS

Enrique García reflected on the current climate for expanding free trade and furthering economic integration. He observed that, "since 1997, widespread support for the Washington Consensus as the region's model for creating sustainable economic growth has splintered into a number of different approaches to development." Optimism about the impact of liberalizing trade regimes and increased investment has soured, largely due to nagging levels of unemployment and failures within the Doha Round of World Trade Organization negotiations. Still, García argued that the prevalence of bilateral free trade agreements and the approval of multilateral accords, such as the Central America-Dominican Republic Free Trade Agreement (DR-CAFTA), could revive enthusiasm for free trade in the region and "breathe life" into currently-stalled talks around the Free Trade Area of the Americas (FTAA). He praised the progress being made in negotiations related to U.S.-Andean free trade agreements.

José Miguel Insulza focused his comments on the political climate in the hemisphere. He celebrated the recent series of electoral contests as "more free, clean, and participatory than at any

Carolina Barco, Enrique García, Carla Hills

"Since 1997, support for the Washington Consensus has splintered into different approaches." —Enrique García

> "The failure to deliver tangible benefits to millions of Latin Americans has produced populist leaders."
> —José Miguel Insulza

other point in the region's independent history." This should be seen as a sign of widespread commitment to the democratic process across the region, Insulza said.

Still, Insulza warned that poverty and inequality serve as continual threats to democracy in the region. The failure of economic growth to deliver "tangible benefits" to millions of Latin Americans has given rise to populist leaders who lack a vision for sustained growth. Insulza affirmed that the solution to persistent poverty and inequality lies not in "populist experiments, but rather in strengthening democracy, policies of macroeconomic stability, and increasing the rule of law." Progress in these critical areas, he argued, "hinges on the cooperation and good will of countries throughout the region and around the world," particularly in the context of a rapidly integrating political and economic global setting.

Latin America has undergone significant change since the first annual Corporación Andina de Fomento (CAF) Conference on Trade and Investment in the Americas was held in 1997, remarked **Peter Hakim**. The emergence of President Hugo Chávez in Venezuela, the development of Plan Colombia, and the proliferation of free trade agreements largely account for the elevated attention to the region. The prestige of CAF as an institution has also grown in the last ten years under García's effective leadership.

Jim Kolbe (R-AZ) focused on troubling trends in U.S.-Latin American relations over the last twelve months. The long-serving congressman recalled speaking with guarded optimism at the 2005 CAF Conference regarding the state of hemispheric relations but found it difficult to speak this year with similar confidence. Over the last year, "Doha has come to a virtual stand-still, FTAA has

Jim Kolbe (R-AZ), Peter Hakim

Gregory Meeks (D-NY), Xavier Becerra (D-CA)

been issued a death certificate…and fast-track authority has almost expired," Kolbe said, adding that the prospects for progress on new trade initiatives are bleak.

Xavier Becerra (D-CA) singled out trade and investment as the two main issues shaping hemispheric relations. Despite significant differences among lawmakers, he assured listeners that there "is no doubt that everyone in Congress understands the importance of moving forward with bilateral and multilateral trade relations with its closest neighbors, whether Andean, Central American," or other regional partners. He emphasized the need to find consensus on trade agreements that do not harm our partners and their people. "We must speak as one America… If we cannot do things right in our own hemisphere, we will have trouble doing things right anywhere else in the world."

Becerra insisted that we must pay attention to the social and economic dimensions of democracy if we want to foster stability in Andean countries. Democracy's failure to produce tangible economic benefits "has understandably led many in the region to question its effectiveness," the lawmaker said. Regarding perceived threats to democracy in Venezuela and Bolivia, Becerra argued that, rather then "ostracizing leaders who take a unique approach to the democratic process, U.S. lawmakers should work with them to figure out how to make the system work well for everyone."

Gregory Meeks (D-NY) was decidedly more optimistic about the region than his congressional colleagues. Citing substantial progress since the close of the Cold War, he said that today Latin America "is alive with new industries, growing economies,

"If we cannot do things right in our own hemisphere, we will have trouble doing things right anywhere."

—Xavier Becerra (D-CA)

emerging democracies and innovative reforms." Meeks, a leading congressional voice on Afro-Latino issues, was encouraged that the U.S.-Colombia Trade Promotion Agreement represented an important opportunity for Afro-Colombians to "bring life to their coastal region, where ports could be used as a means of economic development." While much remains to be done in terms of improving the status of Afro-Colombians, the Uribe administration has made "significant progress" in this area, the lawmaker said, praising the Colombian leader for discussing the importance of Afro-Colombians to the country's development during his inaugural address. Meeks warned his congressional colleagues not to make unrealistic demands of Colombia regarding the speed of its economic development, arguing that "we cannot expect them to do mission impossible."

> **"The U.S.–Colombia trade pact is an opportunity for Afro-Colombians to bring life to their coastal region."**
> **—Gregory Meeks (D-NY)**

With regards to Peru, Meeks said that a trip to the country earlier in the year made him a strong proponent of increased U.S.-Peruvian trade ties. Citing the creation of over 800,000 jobs in the country's export sector during 2005 alone, Meeks said the U.S.-Peru Trade Promotion Agreement would foster continued growth by creating a more stable investment climate and encouraging further development of non-traditional sectors. In response to Democratic criticism of Peruvian labor standards, Meeks argued that the trade deal would serve to incorporate thousands of Peruvians into the country's formal economy and provide them with legal guarantees of improved working conditions.

LATIN AMERICA'S YEAR OF ELECTIONS

Moderator **María Jimena Duzán** opened the discussion on recent Latin American elections by posing the question, "Are we facing a new kind of political leadership in Latin America?" She asked whether a new *caudillismo* was emerging in the region in response to demands to reduce poverty and inequality. She wondered whether Latin America and its leaders were focused on addressing these "real issues" currently facing the region.

Genaro Arriagada noted that while the year's elections "had been the cleanest ever recorded," several areas of concern remain. Referring to PRD (Party of the Democratic Revolution) leader Andrés Manuel López Obrador's refusal to concede the presidential election to President Felipe Calderón, Arriagada argued that Mexico's "political system cannot continue in its present form." Arriagada also warned that Hugo Chávez's decision to withdraw

Michael Shifter, María Jimena Duzán

Venezuela from the Andean Community could "lessen the group's commercial attractiveness" but added that his departure would also create "increased political cohesion" among the bloc's remaining members. Turning to Mercosur, Arriagada said that Venezuela's induction could fuel further unrest within that group. Mercosur relations have been strained by recent tensions between Argentina and Uruguay over the latter's decision to build a paper mill near their common border, which officials in Buenos Aires allege will result in substantial water pollution in the Uruguay River.

Adrián Bonilla offered a statistical assessment of South America's political setting, contending that 65 percent of the region's gross domestic product and 71 percent of its population are now governed by leaders from the left. "In general, Latin America's recent elections indicate a trend toward the institutional

"Mercosur relations are strained."

—Genaro Arriagada

Adrián Bonilla, Genaro Arriagada

left," he said, citing the perceived failure of neoliberalism, de-stigmatization of the left, and flawed U.S. policy vis-à-vis the region as key reasons for this shift.

Eleazar Díaz Rangel attributed President Chávez's consolidation of power in Venezuela largely to an outdated U.S. perception of Latin America. "Leaders in Washington maintain a Cold War image of Latin America." Flawed U.S. policy has emboldened Hugo Chávez and other leaders to take a more antagonistic approach to relations with the United States. He noted that during the opening years of his presidency Chávez exercised a policy of "rhetorical restraint" so as not to upset relations vis-à-vis Washington, but now, President Bush's deteriorating image in Latin America has inspired a shift in policy. Today, Díaz Rangel noted, "antagonizing President Bush has become a primary tool" for Chávez in solidifying support among his base and undermining his political opposition.

> **"Flawed U.S. policy has emboldened Hugo Chávez."**
> **—Eleazar Díaz Rangel**

While most Venezuelans oppose their president's sale of discounted oil as a means to score political points in the region, the opposition has failed to capitalize on this or other opportunities to criticize Chávez. "Today, 22 percent favor the opposition in Venezuela," Díaz Rangel noted, but the opposition's withdrawal from recent congressional elections undercut its relevance.

Turning to Brazil, **Paulo Sotero** predicted three factors would propel President Lula to a first-round victory in that country's upcoming presidential election: the charismatic leader's personal appeal; an "explosion" in low-wage job creation; and a generally dynamic Brazilian economy. Still, limited growth and lingering problems related to the corruption scandal that has marred the Workers' Party (PT) could undermine his mandate in a second term, estimated Sotero.

Sotero outlined three likely scenarios for Lula's governing strategy should he win re-election. First, the leader could seek to build a coalition but rely to a greater extent on traditional, "patronage" politics to move legislation. Secondly, if further economic reforms and job creation do not fuel increased growth, Lula could revert to *assistencialismo*—large government handouts as a means of solidifying political support. Alternatively, Sotero said, the president could accept greater responsibility for the recent corruption scandal and initiate a process of "national rehabilitation" by reaching out to political opponents. In closing, Sotero lamented that corruption and scandal have marred what "should be a moment of triumph in Brazil."

Peter Hakim, Rep. Tom Petri (R-WI)

> **"Chile should serve as a model in the region."**
> **—Tom Petri (R-WI)**

LUNCHEON: SPECIAL REMARKS

Tom Petri (R-WI) attributed Latin America's favorable macroeconomic indicators and high growth rates to abnormally high commodity prices, calling these economic "good times" both an "opportunity and a threat." Speaking of Latin America's heavy dependence on the export of primary goods, Petri praised Chile for diversifying its economy and avoiding "what would otherwise be a roller coaster ride." This approach should serve as a model in the region, he said.

Latin American governments must develop effective mechanisms for generating revenue streams to adequately fuel the economy, Petri argued. In some sectors, he said, "there should be both public and private investment."

Petri stressed the importance of developing infrastructure as a means to promote competitiveness and development in the region. He proposed that the United States and Latin America look beyond trade partnerships to work together to improve infrastructure throughout the hemisphere. He also emphasized that trade negotiations between the United States and Latin American countries should provide a way to overcome physical barriers to economic development.

LUNCHEON: LATIN AMERICA'S ECONOMIC PROSPECTS

Anoop Singh proposed that three factors account for Latin America's history of low rates of economic growth. First, Singh noted that "income convergence within economies in Latin America has been very slow relative to other regions, which explains lingering inequalities." Second, Latin America "has been relatively unsuccessful in sustaining growth spells beyond the initial period." This has served as a barrier to higher rates of investment and savings in the region. Finally, Singh said that macroeconomic crises—usually induced by irresponsible fiscal policies—often undercut periods of growth.

"Growing is not enough in this moving world. You have to grow, and grow faster."
—Joaquim Ferreira Levy

In closing, Singh argued that breaking out of the "low-growth trap" would require Latin American leaders to encourage both savings and investment, but cautioned against "high investment and savings rates that do not transform into productivity."

Joaquim Ferreira Levy offered two additional points to account for the region's relatively low level of growth over the last thirty years. Democratization has resulted in increased openness and political freedoms for millions across Latin America while also significantly raising the number of demands societies can make on their government. This often constrains policymakers' ability to adopt the appropriate recipes for growth.

The second explanation is historically-rooted. Prior to the end of the Cold War, Latin America represented the primary destination of U.S. foreign direct investment, but after the fall of the Berlin Wall, funds flowed away from the region. This forced Latin American leaders to hastily adopt major economic reforms in order to keep pace in a fast-changing world. Though these adjustments initially resulted in impressive levels of growth across the region, political and social backlash from disaffected sectors of society continue to obstruct sustained and robust progress.

To close, Levy stated that Latin America has a favorable economic outlook in the current period. Sustained growth of between 3 to 5 percent over the next ten years would, indeed, move the region into a new stage of economic advancement. He warned, however, that Latin America needs a faster rate of growth in order to be competitive in the world: "Growing is not enough in this moving world. You have to grow, and grow faster."

Michael Reid argued that the economic "bounceback" in Argentina and in Venezuela, as well as high global commodity prices, have helped boost the region's recent economic numbers. When one looks at Brazil and Mexico, the region's two biggest economies, growth rates appear "a bit flatter."

Still, Reid does not believe that Latin America is caught in a low-growth trap. After a quarter century of striving for calm on the economic and political fronts, Reid asserted that "Latin America has entered a period of new stability," pointing to recent elections as an indication that "the fruits of this stability are emerging." He cautioned, however, that a there are a large number of Latin Americans who feel they haven't benefited from stability and are prepared to "tear things up and start again." Reid argued that "maintaining economic and political stability is crucial" for the "medium-term task" of fostering the type of sustainable growth capable of significantly improving living standards for these disaffected sectors. He further asserted that raising the rate of investment would also be key: "Investors must feel confident that there will be stable rules of the game…beyond the next election."


Michael Reid

"Many Latin Americans are prepared to tear things up and start again."
—Michael Reid

U.S. POLICY TOWARDS LATIN AMERICA

Tom Shannon took issue with the notion that the United States has a policy *toward* Latin America, arguing instead that "our policy is pan-American." He laid out four priorities for the United States in its relationship vis-à-vis Latin America: to work to consolidate democratic institutions in the region; to promote a plan for hemispheric economic prosperity; to invest in human capital; and to protect the long-term security of the democratic system.


Nancy Lee, Tom Shannon

> **"U.S. and Latin American leaders must reduce the use of ideological and rhetorical devices."**
> **—Tom Shannon**

Shannon emphasized the importance of social issues to U.S.-Latin American relations, pointing out that there "is a growing realization that economic growth and opportunity aren't enough to address the… social agenda." Instead, he argued, the United States must invest more in health, education, and other human capital projects.

Turning to economic integration, Shannon maintained that the United States and Latin America currently have an exceptional opportunity to promote development through cooperation and collaboration. Several countries in the region, Shannon said, have demonstrated their commitment to "free markets as the key engines of economic growth," as well as "the importance of free trade." Still, in order to shore up more effective partnership on economic issues, U.S. and Latin American leaders must "find a way to reduce the use of ideological and rhetorical devices in our policy."

Shannon closed by saying that "a convergence of political values" has placed the region on a positive track. Still, ensuring that the benefits of economic growth and participatory democracy are felt by everyone remains a challenge. "It's one thing to be democratic," he said, but quite another "to create something where people really feel they're part of the government."

In terms of U.S. economic policy, **Nancy Lee** identified two characteristics that distinguish Latin America. First, the region boasts tremendous, yet largely unfulfilled economic potential. Secondly, Latin America's close ties with the United States present exceptional opportunities for the two players to partner on trade, investment, and other efforts key to foster increased economic growth. "Today," Lee noted, "Latin America accounts for one of every five dollars of U.S. external trade, foreign direct assistance, and bank lending."

Still, two key challenges have prevented Latin America from achieving more rapid growth, Lee said. On the one hand, jobs in the formal economy have not grown fast enough, leaving the majority of Latin Americans to operate informally. On the other, institutional barriers have conflated the problem by blocking the attempts of millions of economic actors to transition from the informal to formal sector. Addressing these issues, Lee stressed, represents a key objective in U.S. policy toward the region.

Fernando Cepeda highlighted U.S. tensions with Venezuela as well as Colombian and Peruvian efforts to secure free trade agreements with Washington as two key elements of U.S.-Andean relations. He expressed concern that Latin American countries have failed effectively to integrate themselves into the world economy

Fernando Cepeda, Carolina Barco

beyond signing bilateral free trade agreements and exporting oil. Noting this, Cepeda said it was clear that the "Latin America we want does not exist."

Cepeda also pointed to U.S. Cuba policy and counter-narcotics efforts as two factors that have hampered U.S.-Latin American relations. He argued that the U.S. embargo on Cuba has largely damaged Washington's image in the region and fueled support for anti-U.S. leaders. Cepeda warned that the U.S. standing in Latin America could turn on the how the United States acts on this issue. He also suggested that debate concerning Washington's "War on Drugs" has created significant backlash in Andean countries and should lead U.S. lawmakers to consider "a fresh approach" to counter-narcotics efforts. Cepeda closed by saying that while China's growing role in the region could put a new strain on U.S.-Latin American relations, it remains unclear how expanded Sino-Latin American ties will affect the relationship with Washington.

Roberto Russell identified four leading approaches to U.S.-Latin American relations. One school of thought maintains that Latin America has become increasingly irrelevant to the United States, with proponents arguing that the "hemispheric dream is dead." A second model uses trade and other macroeconomic statistics to argue for the growing relevance of Latin America to the United States. This approach fails to disaggregate the region and see that while Brazil and Mexico may be increasingly relevant to U.S. policy priorities, Latin America on the whole may not be a priority for the United States. This analysis does not show how Congress and domestic politics dominates policy formation.

"Debate over Washington's 'War on Drugs' has created significant backlash in Andean countries."
—Fernando Cepeda

Acknowledging the important yet varying relevance of Latin America to U.S. priorities constitutes a third approach. Russell praised this view of U.S.-Latin America relations as less imperialistic, since it suggests that each Latin American country has a unique domestic agenda that determines its relationship with Washington. It argues that while strengthening democratic institutions is a key tenet of U.S. foreign policy, distinct domestic conditions distinguish Latin American countries one from another and account for variances in U.S. policy objectives.

"Bolivians are perfectly entitled to do anything they want with their gas."
—Francisco Gros

Finally, a fourth set of scholars argue that U.S. influence in Latin America is waning. Despite the rising popularity of anti-U.S. leaders and China's growing influence in the region, Russell called this view "premature and incorrect." On one hand, he said, "the United States remains Latin America's primary investor." On the other, China does not have a sufficient diplomatic presence in the region to oppose U.S. influence. Chinese interests in Latin America are largely pragmatic, focusing on commercial and energy ties rather ideological influence.

ENERGY AND OIL MARKETS


Hugo Coronel

Ecuadoran vice minister of energy and mines **Hugo Coronel** proclaimed that "countries have to become self-sufficient" in their energy needs. He said that Ecuador is working on a pilot project to make gas stations in Guayaquil ethanol-compatible. Coronel also emphasized that "Ecuador is strictly complying with international [environmental] norms" in its oil exploration.

Bolivian vice minister of hydrocarbons, **William Donaire** characterized his country's relationship with Brazil, Argentina, and Spain as "rich," despite disputes with foreign companies from these countries over government plans to nationalize the oil and natural gas sectors. He held that good relations can be maintained despite a backlash from foreign investors unhappy with President Evo Morales' May 1 nationalization decree, in which foreign companies were given six months to negotiate new contracts with far less favorable terms.

Bolivia wants to keep increasing the price of natural gas sold to Brazil until 2009, Donaire said, noting a global rise in energy demand and prices.

Ana Mercedes Botero, William Donaire

Francisco Gros said that Brazil's experience in Bolivia has dampened his optimism about the possibility of energy integration in the region. Brazil's state-owned Petrobras, one of the two biggest investors in Bolivia's hydrocarbons sector, has suspended investments in Bolivia pending the outcome of the nationalization plans. "Brazil bet its future on a Bolivian partnership. Look where it got us," Gros challenged. "Bolivians are perfectly entitled to do anything they want with their gas," while the Morales government "seems to have expropriated Petrobras' installations and hasn't made a peep about what it's going to do about compensation."

In the face of Bolivia's hydrocarbon sector nationalization plan, Gros said "Brazilian consumers are making alternate plans… and Petrobras is increasing its production of gas." Additionally, Brazil has decided to move toward liquefied natural gas (LNG) production. Gros estimates that it would take no more than two years to build the necessary LNG infrastructure. "LNG would give Brazil a reliable market-based supply of energy not affected by populist governments," he explained.

Georges Landau concurred with Gros regarding Bolivia's nationalization plan. "I think the Bolivian government has naively killed the goose that lays golden eggs," he said, adding that "relations between Bolivia and Brazil have been affected."

Landau agreed with Gros that Brazil has reason to increase gas production. He noted that Brazil's energy matrix is highly concentrated in hydroelectric power. Currently, 11 to 12 percent of the country's energy currently comes from natural gas. However, this number could reach 15 percent by 2010, Landau predicted. Brazil is also "the world's foremost producer of ethanol," which could account for 14 percent of the country's energy matrix by 2010, he said.

"There has been chronic mismanagement of Brazil's energy sector."

—Georges Landau


Antonio Merino, Georges Landau, Francisco Gros

Landau warned that Brazil's regulatory framework is problematic, however. There has been chronic mismanagement of the energy sector. When President Lula issued a "vendetta" against the nine regulatory agencies responsible for the energy sector he effectively "wielded an institutional hatchet" that weakened them.

Antonio Merino, chief economist for Spanish-Argentine Repsol YPF, the other of the two biggest investors in Bolivia's hydrocarbon sector, chose not to comment on that country's decision to nationalize its oil and gas operations. Bolivia has pushed Argentina, as well as Brazil, to renegotiate the price of Bolivian natural gas exports. Merino asserted that "there are long-term prices negotiated," and that "we must bear in mind that we are in the ascending part of the price cycle."

Noting increasing energy demand in Latin America, he argued that further economic growth will continue to fuel demand. "If demand grows, it will be necessary to find a way to take advantage of resources," he said. To these ends, Merino believes that energy issues are serving to further integrate the region. There is an incentive toward integration between countries that have energy resources and those that demand it, he explained.

SCENARIOS FOR REGIONAL COOPERATION AND CONFLICT

Sergio Amaral expressed concern that, after half a century of working to forge greater regional integration, Latin America now finds itself characterized by "a march towards fragmentation." Amaral identified three trends currently shaping regional relations. First, he highlighted the rise of social movements that, while generally in favor of democracy, would support authoritarian rule if it helped to ease economic problems. He attributed this phenomenon, in part, to the inability of Latin American governments to address the issues of poverty and income inequalities. He questioned the capacity of existing party systems to absorb demands raised by social movements. "The poor are impatient," he stressed, and "governments have not provided a response to the new realities facing the region."

Sergio Amaral

Secondly, Amaral emphasized the divisive impact of free trade agreements. Whereas "countries on the Pacific coast tend to favor FTAs and are increasingly turning their attention towards Asian markets," countries bordering the Atlantic are more hesitant to pursue bilateral free trade agreements, he observed.

The "identity crisis" of Mercosur constitutes a third key trend in current regional relations. The trade bloc, he argued, "needs to make a choice between whether it wants to protect or compete." He continued, "Unless Mercosur is able to promote increased inclusion, it will face several sources of instability and conflict."

In closing, Amaral predicted that while regional cooperation and integration are both "possible and desirable," advances in either area are "not likely" under current circumstances.

"Peru is integrating itself with the region and world piece by piece," asserted **Mercedes Aráoz**. She cited substantial increases

Mercedes Aráoz, Sergio Bitar

"Mercosur needs to make a choice between whether it wants to protect or compete."
—Sergio Amaral

> “Latin American social sectors are erupting and tumultuous.”
> —Carlos Basombrío

in imports, the development of new industries, and the growing importance of previously isolated regions of the country to the national economy.

Regarding international trade, Aráoz announced that a recently-concluded free trade agreement between Chile and Peru would result in a three-fold increase in commerce between the two countries, create important benefits for investment and service industries, and further reduce lingering tensions borne out since the War of the Pacific in the late nineteenth century. Aráoz stated that trade negotiations between Chile and Peru “have set an example for the rest of the region to follow.” Additional trade talks currently underway with Singapore and other countries on the Pacific Rim may serve as a model for Latin American countries seeking to speed their integration into the global economy.

Carlos Basombrío identified growing anti-U.S. sentiment, increasing popularity of the notion of a ‘Bolivarian Revolution,’ and a general movement to the left as the three key trends shaping relations among Latin American countries today. Basombrío observed that a burgeoning disconnect between state and society has fueled discontent in several countries in the region and left Latin American “social sectors erupting and increasingly tumultuous.” He maintained that “cooperation and conflict are not defined by ideologies but by national policies and the political economy” and that political leaders would have to work together to forge increased unity. In closing, Bitar indicated that through trade the United States has a unique opportunity to “strengthen or weaken the process of integration in the region.”

Latin America has reaffirmed its commitment to democracy, said **Sergio Bitar.** Still, he is troubled that the region’s democracies remain “limited.” Good macroeconomic management has not been accompanied by sustained social policies for reducing poverty and diminishing inequality. “The challenge today is to find the right combination of responsible macroeconomic policies and social policies.”

Bitar does not share the view that Latin America is experiencing a period of economic “de-integration”. He noted progress in Central American countries, Chile, Peru, and Colombia in establishing trade agreements with fellow Latin American nations and countries outside of the region as signs of economic reintegration.

Ana María Sanjuán cautioned against the tendency of some to “idealize the themes of regional integration,” arguing instead for a “mature and incremental” approach. Among the several factors currently constraining regional integration efforts, Sanjuán pointed

Ana María Sanjuán, Michael Shifter

> **"Inequality and weak institutions are constraining regional integration efforts."**
> **—Ana María Sanjuán**

to inequality, social exclusion, and weak institutions—including the OAS—as particularly problematic. Most states do agree, however, that there is tremendous inequality in the region and that more must be done "to incorporate excluded sectors into society."

Sanjuán pointed to energy as an issue that could foster greater integration in the region. "Energy has the potential to create collaboration," she said, noting that while "Venezuela and Colombia historically have had tense relations, they are beginning to coordinate over gas." In her view, Latin American leaders must seek out new issues on which pragmatic cooperation is possible if integration is to play a meaningful role in solving regional problems.

ECONOMIC RESPONSE TO SOCIAL CHALLENGES

Miguel Castilla acknowledged there has been economic progress, but warned it will by stymied by vast inequalities—both in terms of income distribution as well as in the rate of economic growth across geographic regions of a country's interior. Castilla identified two challenges ahead. First, regional leaders will have to grapple with the question of how to implement economic policies that are beneficial and sustainable in the long-term but that also provide the immediate relief demanded by disaffected sectors throughout Latin America. Castilla pointed to conditions across Southern Mexico in the aftermath of NAFTA to highlight the second challenge: the importance of developing macroeconomic strategies that tap the benefits of broad economic gains to address the needs and interests of excluded communities.

"For most of the last century and a half, Latin America grew faster than China."
—William Easterly

"To grow is not enough" in order to improve social conditions, asserted **Juan Miguel Cayo**. He contrasted Peru's impressive growth rates, low inflation, and burgeoning export sector with a lack of progress on social issues such as urban unemployment, education, and infant mortality. He stressed that the 'trickle down effect' will have to occur faster if Peru is to fully capitalize on its macroeconomic success. "For the last ten years, the emphasis of the government has been on reduced social spending in order to put the economy in order." Now, Cayo said, "it should be on how to spend well" in order to guarantee that growth delivers economic gains for all sectors of society.

The second administration of President Alan García would look to place a "stronger emphasis on the social aspect" while maintaining the macroeconomic progress initiated during the tenure of his predecessor, Alejandro Toledo. "The role of the state should be to increase investment in the public sector," Cayo explained, especially in terms of ensuring that all Peruvians are covered by, have access to, and are included in health care coverage, education, and other state-run programs. "This implies that there has to be a state at the service of the population," he said.

William Easterly referred to the "Latin American miracle" that he claims most people fail to recognize. Easterly asserted that, since 1870, Latin American economies have been growing annually at the steady rate of 2 percent, whereas China experienced average growth of 0 percent during the first one-hundred years of that same period and has only begun making up ground over the last two decades. "People are reluctant to call Latin America a miracle," he said, "because of the phenomenon of the 'East Asian Tigers' for whom growth has skyrocketed over the last fifty years."

Still, while economic freedom in the region has dramatically increased during the last twenty-five years, the "over promising of the free market" has led to "populist backlash," Easterly maintained. Furthermore, though rampant income inequality has become "morally painful," he said, an "overemphasis on income redistribution in the 1970s led to an economic crisis that lasted twenty years" and fueled populist sentiment that served to undermine economic growth. In the future, he argued, Latin American leaders must avoid stressing income redistribution, and work instead to emphasize long term growth.

Despite favorable macroeconomic indicators including the steadiest growth since the 1970s, the legacy of the Washington

Albert Fishlow, José Miguel Insulza

“There has been much talk but little progress in reigning in bloated budgets.” —Albert Fishlow

Consensus “has not taken Latin America very far,” argued **Albert Fishlow**. He held that a key reason for the lack of progress is that “Latin America continues to lag behind in the area of education,” as it has for the last forty years. Despite increases in the general availability of education, he criticized the quality of education as very poor and incapable of preparing the “qualified labor force” necessary for more robust economic development.

Fishlow also pointed to inefficient spending as a roadblock to economic progress in Latin America, arguing that there has been “much talk, but little progress” in terms of reigning in bloated budgets and wasteful expenditures.

Like Easterly, Fishlow cautioned against the tendency of some leaders to overemphasize income redistribution. Efforts to this end faltered in the 1970s “because they sought to redistribute immediately,” as opposed to promoting a steadier process. It is important, Fishlow said, to “set policies for advances in the longer run.” He closed by warning against confusing poverty reduction with wealth redistribution. He noted that these are two separate objectives and must be handled in unique ways.

While Chile does represent an interesting case of economic success, **Carlos Ominami** warned against all the attention that has been given to the “Chilean model.” Echoing statements made by Cayo, Ominami said that “growth must not be an end in itself… It is a necessary condition, but not enough.” Ominami claimed that the IMF-led limits on social spending were “not fair or appropriate” and have constrained Chile’s ability to combat high levels of youth unemployment within the country, as well as establish a minimum

“Latin America is in an ‘underdevelopment trap.’”

—Guillermo Perry

Carlos Ominami, Guillermo Perry

housing standard. He advocated for the creation of specific policies for generating employment and for government flexibility to adjust spending levels.

Guillermo Perry spoke on how Latin America has fallen behind developed countries in terms of growth and development and on what is necessary to get out of the “underdevelopment trap.” For an eighty-year period from 1870 to 1950, he explained, economies in the region had grown more or less on par with developed countries. At the end of this period, however, other countries began to grow more and at a faster rate, prompting Latin America to “close to the world,” which only served to accelerate this widening gap. At the same time, a lack of focus on education in the region allowed other parts of the world to outpace Latin America in creating an educated population and a skilled, qualified work force.

Growth is a necessary but insufficient condition for sustainable economic development in Latin America, according to Perry. He argued that groups that start off with more poverty develop more slowly and don’t contribute to growth as much as other sectors. In outlining an economic strategy for the region, he contended that leaders must couple efforts to improve conditions at the macro level with broad-based poverty reduction programs. “People are born with talents,” he said, “and they should have opportunities that allow them to use and develop them.

Corporación Andina de Fomento (CAF)
10th Anniversary

Conference on Trade and Investment in the Americas

September 7–8, 2006
Washington, DC

AGENDA

Thursday, September 7
Carnegie Endowment for International Peace
1779 Massachusetts Avenue, NW (Root Room)

8:30 – 9:00 a.m. ***Continental Breakfast***

9:00 – 10:15 a.m. ***Welcome and Opening Remarks***
Enrique García, *President,Corporación Andina de Fomento*
José Miguel Insulza, *Secretary General, Organization of American States*
Peter Hakim, *President, Inter-American Dialogue*

Special Remarks
Jim Kolbe, *U.S. Representative (R-AZ)*
Xavier Becerra, *U.S. Representative (D-CA)*
Gregory Meeks, *U.S. Representative (D-NY)*

10:15 – 12:15 p.m. ***Latin America's Year of Elections: Results and Consequences***
Moderator: María Jimena Duzán, *Reporter and Columnist, El Tiempo, Colombia*
Genaro Arriagada, *Former Minister of the Presidency, Chile*
Adrian Bonilla, Director, *FLACSO Ecuador*
Eleazar Díaz Rangel, *Editor, Últimas Noticias, Venezuela*
Paulo Sotero, *Washington Correspondent, O Estado de São Paulo, Brazil*

12:15 – 1:45 p.m. ***Luncheon***

Special Remarks
Tom Petri, *U.S. Representative (R-WI)*

Latin America's Economic Prospects
Moderator: Peter Hakim, *President, Inter-American Dialogue*
Anoop Singh, *Director, Western Hemisphere Division, International Monetary Fund*
Joaquim Ferreira Levy, *Vice President for Finance and Administration, Inter-American Development Bank*
Michael Reid, *Americas Editor, The Economist*

1:45 – 3:30 p.m. ***US Policy towards Latin America***

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

Thomas Shannon, *Assistant Secretary of State for Western Hemisphere Affairs, U.S. Department of State*

Nancy Lee, *Deputy Assistant Secretary for Eurasia and Latin America, U.S. Department of Treasury*

Fernando Cepeda Ulloa, *Professor, Universidad de los Andes, Colombia*

Roberto Russell, *Academic Director, Instituto del Servicio Exterior de la Nación, Argentina*

3:30 p.m. ***Coffee Break***

3:45 – 5:45 p.m. ***Energy (Oil Markets and Actors)***

Moderator: Ramón Espinasa, *Energy Consultant, Corporación Andina de Fomento*

Hugo Coronel, *Vice Minister of Energy and Mines, Ecuador*

William Donaire, *Vice Minister of Industrialization and Commercialization, Bolivian Ministry of Hydrocarbons and Energy*

Francisco Gros, *President and CEO, Fosfertil Ultrafertil of Brazil*

Georges Landau, *Senior Associate, Center for Strategic and International Studies and President, Prismax Consulting*

Pedro Antonio Merino García, *Chief Economist, Repsol YPF, Spain*

Friday, September 8

Carnegie Endowment for International Peace
1779 Massachusetts Avenue, NW (Root Room)

8:00 – 8:30 a.m. ***Continental Breakfast***

8:30 – 10:30 a.m. ***Scenarios for Regional Cooperation and Conflict***

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

Sergio Amaral, *Former Minister of Industry and Commerce, Brazil*

Mercedes Aráoz, *Minister of Foreign Commerce and Tourism, Peru*

Sergio Bitar, *Former Senator and Minister of Education, Chile*

Carlos Basombrío, *Columnist, Perú 21*

Ana Maria Sanjuán, *Professor, Universidad Central de Venezuela*

10:45 – 12:30 p.m. ***Economic Response to Social Challenges***
Moderator: Miguel Castilla, *Chief Economist, Corporación Andina de Fomento*
Juan Miguel Cayo, *Vice Minister of Finance, Peru*
William Easterly, *Professor of Economic and Africana Studies, New York University*
Albert Fishlow, *Professor of International and Public Affairs, Columbia University*
Carlos Ominami, *Senator and Former Minister of Economy, Chile*
Guillermo Perry, *Chief Economist for Latin America, World Bank*

1:15 – 2:30 p.m. ***Reception at the Organization of American States***

17th Street and Constitution Avenue

Remarks by José Miguel Insulza and Enrique García

Tenth Annual Corporación Andina de Fomento (CAF)

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PROFILES OF SPEAKERS

Sergio Amaral was minister of industry and commerce of Brazil. He has also served as ambassador of Brazil to France and England.

Mercedes Aráoz is minister of foreign commerce and tourism of Peru.

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

Carolina Barco is ambassador of Colombia to the United States and she has served as foreign minister.

Carlos Basombrío is a columnist for *Perú 21*. He was director of the Instituto Defensa Legal in Lima and has served as vice minister of the interior.

Xavier Becerra is a member of the U.S. House of Representatives (D-CA). He serves on the House Committee on Ways and Means and is a member of the Trade Subcommittee.

Sergio Bitar is president of the Party for Democracy (PPD) of Chile. He has served as minister of education of Chile.

Adrián Bonilla is director of the Facultad Latinoamericana de Ciencias Sociales (FLACSO) in Ecuador.

Ana Mercedes Botero is director of community and cultural development at the Corporación Andina de Fomento (CAF).

Miguel Castilla is chief economist at the Corporación Andina de Fomento (CAF).

Juan Miguel Cayo is vice minister of finance of Peru.

Fernando Cepeda Ulloa is professor of political science at the Universidad de los Andes in Bogotá. He was ambassador of Colombia to Great Britain and the United Nations and has also served as minister of government and communications.

Hugo Coronel is the vice minister of energy and mines of Ecuador.

Eleazar Díaz Rangel is editor of the Venezuelan newspaper *Últimas Noticias*.

William Donaire is vice minister of industrialization and commercialization of the Bolivian Ministry of Hydrocarbons and Energy.

María Jimena Duzán is a reporter and columnist for the Colombian newspaper *El Tiempo*. She has also worked as foreign editor, columnist, and chief investigator for *El Espectador*.

William Easterly is professor of economics and Africana studies at New York University. He has also served as a research economist at the World Bank and Center for Global Development in Washington, D.C.

Ramón Espinasa is an energy consultant to the Corporación Andina de Fomento (CAF). He was chief economist at PDVSA of Venezuela.

Albert Fishlow is professor of international and public affairs at Columbia University's School of International and Public Affairs. He also serves as director of the Columbia University Institute of Latin American Studies and Center for the Study of Brazil at Columbia University.

Enrique García is president and CEO of the Corporación Andina de Fomento. He was Bolivia's minister of planning and coordination and head of the economic and social cabinet.

Francisco Gros is chief executive officer of the Brazilian corporation Fosfertil Ultrafertil. He has also served as chief executive officer of Petrobras and twice as president of the Brazilian Central Bank.

Peter Hakim is president of the Inter-American Dialogue.

Carla Hills was U.S. trade representative and is co-chair of the Inter-American Dialogue's Board of Directors.

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

Jim Kolbe is a member of the U.S. House of Representatives (R-AZ). He serves on the House Committee on Appropriations and is chairman of the Subcommittee on Foreign Operations, Export Financing and Related Programs.

Georges Landau is senior associate at the Center for Strategic and International Studies and president of Prismax Consulting in Brazil. He was Brazil's representative to the Organization of American States and Inter-American Development Bank.

Nancy Lee is deputy assistant secretary for Eurasia and Latin America at the U.S. Department of Treasury.

Joaquim Ferreira Levy is vice president for finance and administration at the Inter-American Development Bank. He has served as secretary of the National Treasury and chief economist in the Ministry of Planning, Budget, and Management of Brazil.

Gregory Meeks is a member of the U.S. House of Representatives (D-NY). He serves on the House Committee on International Relations and the Subcommittee on the Western Hemisphere.

Pedro Antonio Merino García is chief economist for Repsol YPF in Spain.

Carlos Ominami is a senator and was minister of economy of Chile.

Guillermo Perry is chief economist for Latin America at the World Bank. He has served as minister of finance and public credit, minister of mining and energy, senator, and a member of the Constitutional Assembly in Colombia.

Tom Petri is a member of the U.S. House of Representatives (R-WI). He is vice chairman of the House Transportation and Infrastructure Committee and vice chairman of the Education and Workforce Committee.

Michael Reid is Americas editor for *The Economist*.

Roberto Russell is academic director of the Instituto del Servicio Exterior de la Nación in Argentina.

Ana María Sanjuán is professor of political science and director of the Center for Peace and Human Rights at the Universidad Central of Venezuela.

Thomas Shannon is the assistant secretary of state for Western Hemisphere affairs of the United States.

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Anoop Singh is director of the Western Hemisphere Department at the International Monetary Fund.

Paulo Sotero is Washington correspondent for the Brazilian newspaper *O Estado de São Paulo*.

Corporación Andina de Fomento (CAF) is a multilateral financial institution that promotes the sustainable development of its shareholder countries, as well as regional integration. Its shareholders are the five Andean Community countries—Bolivia, Colombia, Ecuador, Peru and Venezuela—as well as Argentina, Brazil, Chile, Costa Rica, the Dominican Republic, Jamaica, Mexico, Panama, Paraguay, Spain, Trinidad & Tobago, Uruguay, and 18 private banks in the region. CAF serves the public and private sectors providing multiple financial services to a broad customer base comprised of shareholder countries, corporations and financial institutions. Its policies and operations incorporate social and environmental criteria. As a financial intermediary, CAF attracts resources from industrialized countries to Latin America, serves as a bridge between international capital markets and the region, and promotes investments and business opportunities. Enrique García is president and CEO of the Corporación Andina de Fomento (CAF).

The Organization of American States (OAS) is the world's oldest regional organization, dating back to the First International Conference of American States, held in 1890. The OAS Trade Unit was created in 1995 to assist the 34 OAS member countries with matters related to trade and economic integration and, in particular, with their efforts to establish a Free Trade Area of the Americas (FTAA). José Miguel Insulza is secretary general of the Organization of American States.

The Inter-American Dialogue is the premier center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue engages public and private leaders from across the Americas in efforts to develop and mobilize support for cooperative responses to key hemispheric problems and opportunities. Peter Hakim is president of the Inter-American Dialogue.

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