

Trade and Investment in the Americas



XI Annual Conference

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Corporación Andina De Fomento (CAF)

**Eleventh Annual
Corporación Andina De Fomento (CAF) Conference**

Trade and Investment in the Americas

September 4 and 5, 2007
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Foreword

The 11th annual CAF Conference on Trade and Investment in the Americas brought together some 300 people. Over two days, U.S. and Latin American government officials, Congress members and staff, leading policy analysts and journalists, and corporate and financial leaders engaged in lively, wide-ranging discussions about the Andean region and Western Hemisphere affairs.

This year, as we look ahead to our 2008 conference, relations among the nations of the Andean community are badly strained—and are likely to remain fractious for some time into the future. The Colombia raid on the Revolutionary Armed Forces of Colombia (FARC) guerilla camp in Ecuador aggravated the already difficult relations between the two countries, which have not yet restored diplomatic ties. And Colombia and Venezuela continue their dispute over the extent of Venezuelan support for the FARC, suggested by information on computers found at the camp. For a short time, there was some danger of armed hostilities, but negotiations led by the Organization of American States and the Group of Rio successfully defused the tension. And President Chávez, like nearly every other leader in Latin America, called on the FARC to put down their weapons.

As in the rest of Latin America, the Andean economies have enjoyed robust growth for the past several years, much of it driven by expanding exports and the world's commodity price boom. Poverty has fallen in every Andean country, and equity has improved in some. This past year, however, growth rates have begun to slow and inflation is rising, partly due to the economic slowdown and the credit contraction in the United States. There are, however, few concerns about another regional economic crisis. With substantially stronger macroeconomic policy and management, Latin America is less vulnerable today to external shocks.

Political developments in most of the Andes are less encouraging. President Uribe's success in improving security in Colombia – by curbing the power of the country's guerrillas and paramilitary forces, and generally reducing crime and violence—is one bright spot, and has made him one of the most popular presidents ever in Latin America. Still, some 65 members of Congress, most of whom are supporters of the president, are under investigation for criminal ties to paramilitary groups and more than 30 of those are already in jail. This has tarnished Uribe's international image—and left the Colombian legislature crippled.

Next door, President Rafael Correa also enjoys strong support and has brought a measure of stability to Ecuador's chronically weak politics and institutions. The country's political course remains uncertain, however. The Constituent Assembly has not yet completed work on a new constitution, and there are increasing signs that the document may not gain the majority needed for its approval. Even if approved, the new constitution may not be good news for Ecuador's politics—which could be left in the lurch once again.

Bolivia is mired in political stalemate. President Evo Morales is fighting to maintain his authority and create a new constitutional order. His opponents, who dominate the four wealthiest states of Bolivia, want greater autonomy from the central government and are committed to resisting the changes sought by Morales. This clash of two opposing political projects has sharpened inter-regional tensions and increased the potential for instability.

Despite record high levels of growth in Peru, bordering on 9 percent per annum, the country is politically divided and unhappy with the leadership of President Alan García, who commands only 30 percent support among voters. There has been little progress on the country's important agenda of institutional reform. Key social indicators remain disappointing, and political parties and Congress are fragile.

President Hugo Chávez is still very much in charge in Venezuela. His stature and authority, however, appear to have waned since he narrowly lost a referendum last December that would have ended limits on how long he could serve as president and further concentrated executive power. Rising inflation, burgeoning crime rates, and shortages of essential goods are also taking a toll on his popularity. Legislative and municipal elections in November 2008 will be the next test of his political strength and the future of his government.

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 as well as 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 take part in the CAF meeting.

CAF President Enrique García has provided the conference with strong leadership and intellectual direction from its inception in 1997. We are also grateful to OAS Secretary General José Miguel Insulza, who has greatly enriched the conference with his commitment and leadership in the past three years. 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 Mary Dempsey, who drafted this report.

Ana Mercedes Botero
Corporación Andina de Fomento

Peter Hakim
Inter-American Dialogue

**Corporación Andina de Fomento (CAF)
11th Annual Conference
on Trade and Investment in the Americas**

September 4 and 5, 2007
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Latin America may have sidestepped—at least for now—its tendency toward boom-and-bust cycles, but it hasn't addressed underlying problems that threaten the sustainability of its ongoing economic expansion, according to experts who assembled at the annual Conference on Trade and Investment in the Americas.

On September 4 and 5, 2007, the Corporación Andina de Fomento (CAF), Inter-American Dialogue, and Organization of American States (OAS) sponsored their yearly conference aimed at identifying a working agenda for the region. Participants included CAF president Enrique García, OAS Secretary General José Miguel Insulza, Inter-American Development Bank president Luis Alberto Moreno, several U.S. Congress members, and Latin American policymakers.

The annual conference brought together some 300 people—U.S. and Latin American government officials; international economists; lawmakers, leading policy analysts, and journalists; and corporate and financial leaders. The aim of this sustained collaboration was 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.

During two days of discussions, conference participants examined a number of developments in Latin America. An unprecedented stretch of economic growth continues, democratic processes remain in place, and trade is flourishing, especially trade driven by commodity demand from China. But the economic good times have not brought poverty down to desired levels, security concerns have not been adequately addressed, and governments have not instituted the policies and reforms needed to sustain growth and development. A major shortcoming has been the failure of the region to generate enough formal jobs for its workers.

“**The region has failed to generate enough formal jobs for its workers.**”

“Polls and survey research show that voters are unhappy with the performance of lawmakers.”
—Enrique García

OPENING REMARKS

Both **Enrique García** and **Peter Hakim**, president of the Inter-American Dialogue, welcomed participants by reflecting on the dramatic changes in the region in the years since the conference was launched.

“Eleven years ago we started this. We had a very small group of participants. Even CAF at the time had only five full members, and today we have 17 members,” García said.

When the first CAF conference unfolded, he recalled, participants were upbeat. Democratic governments had returned and market-oriented reforms of the 1980s and 1990s were bearing fruit. Trade between the United States and Latin America was on the rise and a free trade bloc encompassing the Americas seemed a possibility.

In the years that followed that first conference, however, the region went through a series of ups and downs. “We started this decade with a slowdown in economies and dissatisfaction with the reforms,” García noted. “Since then, economies have improved—the region has seen unprecedented growth over the last four years—and politics have shifted, as has the region’s relationship with the United States.”

One year before, conference participants discussed then-upcoming elections. Those elections have been decided and the results have revealed new leadership, more pragmatists in the region, and energized social movements. But polls and other survey research show that voters are unhappy with the performance of lawmakers in the region. Latin America remains vulnerable when it comes to



José Miguel Insulza, Enrique García

its ability to compete in the global economy. The region's productivity falls far behind that of Asia and microeconomic reforms are missing. Income distribution in Latin America remains poor. Poverty is still a driving problem.

"I think that we see as a very dangerous thing the return of protectionism all over the world," García said. "Immigration and macro-trafficking are other concerns."

As the region has shifted and changed, the CAF conference has also changed, Hakim said. It continues informing U.S. participants about developments in the Andean countries, and it allows representatives from Latin America to hear from Washington players. But the annual gathering has become a forum for identifying issues critical to the Americas.

"We don't really want to have these meetings as a way of intellectually discussing these matters," García added. "We want to use [the conference] to rebuild a new agenda for the region within the context of the region's realities."

POLITICAL SCENARIOS

Participants in a panel discussion on politics in the region agreed that Latin America's political scene reflects internal conflict. A Constituent Assembly in Ecuador could dramatically affect the political future of that country, while Guatemala was on the verge of presidential elections as the conference unfolded. Venezuelan president Hugo Chávez has vowed to take his country to what he termed "twenty-first century socialism." And Peru's ruling party was facing fragmentation within and turbulence without.

Meanwhile, Colombian president Álvaro Uribe, whose popularity skyrocketed after he dramatically addressed crime and security issues, finds himself struggling to meet public demands for jobs and justice.

Against this backdrop, Peru, Colombia, and Panama were waiting to see if the U.S. Congress would approve their pending free trade pacts with the United States.

In a presentation on Ecuador, **Fernando Bustamante** said the most important issue facing that country was the September 30 election of a Constituent Assembly that would have six to eight months to deliver a new constitution. Bustamante, who is Ecuador's minister of internal and external security policy coordination, said his country is in a state of "democratic under-

“Ecuador is in a state of democratic under-achievement.”
—Fernando Bustamante

“ Political shifts during U.S. mid-term elections prompted reservations about Plan Colombia aid and the U.S.-Colombia Free Trade Agreement. ”
—Rodrigo Pardo



Fernando Bustamante, Peter Hakim

achievement” with an economy posting among the poorest results in the region. He said President Rafael Correa seeks deep political reform and sees a constitutional charter as a tool for boosting development and social justice within the country.

In response to questions, Bustamante said Ecuador will not cut itself off from the United States but added that the relationship is changing. “[We] don’t plan to have a relationship like before,” he said. “Past relationships were too lax and they benefited the United States but not necessarily Ecuador.”

Rodrigo Pardo, editor-in-chief of Colombian weekly news magazine, *La Semana*, said Colombia’s political landscape was also complicated. He cited both domestic turmoil, most notably allegations of ties between paramilitary forces and ruling elements in Colombian society, and external factors, including the state of Colombia’s relationship with the United States, as contributors.

He pointed to political shifts during U.S. mid-term elections that prompted greater reservations about Plan Colombia aid and terms of the U.S.-Colombia Free Trade Agreement. Inaction on the trade pact will be viewed in Colombia as a serious failure by Uribe, Pardo said.

And while the United States has stepped up its focus on security and narco-trafficking, Colombians are worried about other issues. He said domestic debate that once focused on security has now been replaced with discussion about the economy, the need to reduce poverty, and inequality. “Colombians want material economic advances,” he said, adding that the poor want a share of the country’s economic boom.

Pardo also addressed increasing domestic and international pressure to move forward on a proposal to exchange imprisoned Colombian guerrillas for kidnapped civilians held by the FARC. In response to questions during the session, Pardo said Venezuelan president Hugo Chávez's proposed role as a broker in such a deal should not adversely affect Uribe.

In Bolivia, meanwhile, when past economic goals went unmet and social and political demands were ignored, the door was opened to new political movements and the election of President Evo Morales, according to **Luis Hernando Larrazábal**, executive director of the Inter-American Investment Corporation.

Now, as in Ecuador, there has been an outcry for greater political participation, particularly among women and indigenous people.

Bolivia has not been able to diversify beyond its traditional role as a commodities exporter. Record-high reserves, GDP growth, and trade surpluses have more to do with the government renegotiation of energy supply contracts with Argentina and Brazil than long-term policies.

Bolivia “needs to generate permanent sources of jobs,” said Larrázabal, who is a former minister of development planning. “Bolivia needs agricultural improvements, technological improvements, training for productive activities, sustainability.”

Michael Shifter, vice president of policy at the Inter-American Dialogue, said Peru is posting impressive economic growth and poverty levels are declining yet the country is beset with social turmoil and discord.

Citing a recent rash of strikes, including work stoppages by miners and teachers, political fragmentation, and the dramatic drop in

“**Peru is posting impressive economic growth and poverty is declining yet the country is beset with social turmoil.**”

—**Michael Shifter**



Michael Shifter, Luis Hernando Larrazábal

“**The economic cost of violence represents 12 percent of GNP in Latin America.**”
—**Ana Mercedes Botero**

President Alan García’s popularity in polls, Shifter said: “Peru is suffering the problems of its success economically. It’s becoming more and more fragmented in political terms. And a weak and ill-prepared state is having trouble dealing with ever-increasing social demands.

Shifter offered Peru as a compelling example that economic growth and a reduction in poverty are not enough for a country. “There must be a commitment to justice and other issues,” he said.

Shifter underlined García’s commitment to a free trade agreement with the United States and Peru and said its failure would be a tremendous blow to the relationship between the two nations.

SECURITY AND GOVERNANCE

Despite economic growth, crime and violence continue to escalate in Latin America. **Ana Mercedes Botero** opened a discussion on security by noting that security tops the list of problems that most concern residents of the region.

Regionally, the economic cost of violence represents 12 percent of GNP, according to Botero, who heads the office of external relations at the Corporación Andina de Fomento. In the Andean countries, the level is 13.8 percent.

Gustavo Fernández, Bolivia’s former minister of foreign affairs, cited two factors affecting regional security: the strengthening autonomy of countries and the U.S. role in conflicts. Traditionally, Fernández said, the United States has intervened in domestic policy and politics but steered clear of cross-border conflicts, including disputes over territory and maritime rights.

The region’s current economic expansion has allowed countries to build their international reserves, cut their debt to the World Bank and development agencies, and decrease their dependence on outside voices—including the United States.

He said, in the 1990s, there was an effort to push alliances into the formation of a greater community, including a collective security system. “In other words, power politics and integration,” he said.

The idea of Mercosur, he said, went beyond a commercial alliance to also include political motives and agendas—in effect a deeper integration with a “scaffolding” that could be a springboard for conflict resolution. However, he said the full reach of Mercosur weakened. “Establishing a South American union is a proposal we all agree on, but we distance ourselves from it at the same time.”

Fernández said Latin America has returned to a system of intra-regional alliances and counter-alliances that reaffirm national



Juan Gabriel Valdés, Gustavo Fernández, Ana María Sanjuán

alignments. He predicted that energy would be a force that restructures and shifts these alliances in the future.

It is such an alliance that is tackling the security issues confronting Haiti. **Juan Gabriel Valdés** outlined the lead role the region is taking in a United Nations mission to Haiti. It is significant, he said, that the U.N. Stabilization Mission in the Caribbean country is led by Latin America, not the United States.

“[The U.N. Mission] is an association within the region that is historically unheard of, and it reflects an important development looking forward to the future,” said Valdés, who heads the mission.

He described Haiti as a “failed state,” a fragile country where the rule of law has not been restored, political forces remain at loggerheads, and basic services need rehabilitation. No solution will come until the root causes of Haiti’s problems are addressed, he said, adding that investment must be part of the solution.

Valdés, who is Chile’s former minister of foreign affairs, said the outcome of the mission is important for the region. “After ... Haiti, it would be very hard to tell the South Americans ‘don’t mess with the Caribbean’ because they have been there already,” he said. “[But] a failure in Haiti is a failure of Argentina, of Brazil, of Chile, of others—not of the United States.”

Latin American governments not only need to take radical positions against drug traffickers, according to **Ana María Sanjuán**, a professor at the Universidad Central de Venezuela, but constitutional reforms are necessary to democratize institutions and create citizen participation if security is to be effectively addressed.

In recent years the region has enjoyed sustained economic growth yet crime rates still have swelled in some countries and

“Haiti is a failed state where the rule of law has not been restored and basic services need rehabilitation.”

—Juan Gabriel Valdés

“No reforms have been undertaken to address the causes or magnitude of crime in Venezuela.”
—Ana María Sanjuán

drug trafficking has grown. Problems with crime and violence have been “hyperpoliticized,” Sanjuán said, leading to short-term solutions by governments.

She pointed to inequities in the region as one of the factors linked to crime and violence. “You can see this inequity in the poor’s access to the justice system and security for the poor,” she said. “This becomes a problem for democracy and the quality of life.”

She said there has been plenty of talk about combating crime and drug trafficking in the Andes region but not corresponding action. “There needs to be a constructive and cooperative effort in dealing with these efforts,” she added.

Sanjuán said most Latin American countries have given police and armed forces the responsibility for controlling crime and violence. Police response has been inadequate, especially in countries with drug-trafficking networks, and yet no reforms have been undertaken to address the causes or magnitude of the crime problem.

Furthermore, there is no coordinated communication system to monitor and combat security threats. For example, she noted that few studies are conducted or government statistics collected to help understand the depth of the problem, including money laundering.

Guatemala’s vice president, **Eduardo Stein**, discussed security from the perspective of an elected official involved in government policy addressing crime and violence.

Speaking just days before Guatemala’s presidential election, Stein said the central theme of the political campaigns had been security. He detailed the rising problem of organized crime and



Eduardo Stein, Ana Mercedes Botero



José Miguel Insulza, Nita Lowey (D-NY)

youth gangs, or *maras*.

“When we talk about organized crime in Central America today, we’re talking about highly sophisticated criminal operations that operate in a transborder manner,” Stein said. “Because they are outside the law, they have no regard for the regular frameworks in any of the countries. They have access to the latest technology in communications, transport and weaponry.”

He noted that in some areas of Central America, as well as Ecuador, Peru, and Colombia, these criminal networks serve as “Robin Hoods,” taking care of the poor residents in the areas where they operate. Drug cartels no longer threaten elected officials, but instead, put forward their own candidates for political office—a trend that deeply undermines the legitimacy of the government.

THE U.S. AGENDA IN LATIN AMERICA

Five U.S. Congress members and the deputy U.S. trade representative spoke to conference participants about the United States’ role in the region, especially as it affects trade agreements, immigration, and aid.

U.S. Representative **Nita Lowey** said she had sponsored a bill in the U.S. House of Representatives earmarking more development aid money for Latin America. The Democrat from New York pointed to the region’s top recipient of U.S. aid, Colombia, in calling for a broader approach to the so-called war on drugs. “In my opinion, the drug war cannot be won without addressing the social problems that feed it,” she said.

At the same time, she said more attention must be paid to security, economic issues, and education in Mexico, which is one of the

“Criminal
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—Eduardo Stein

“I will no longer vote for agreements that do not carry stronger protections for workers and the environment.”

—U.S. Representative Xavier Becerra (D-CA)

United States' most important trade partners.

U.S. Representative **Xavier Becerra**, who has supported past free trade agreements, said he will no longer vote for agreements that do not carry stronger protections for workers and the environment. The California Democrat was critical of current U.S. policy in Latin America, especially when it came to trade, immigration, and development aid, which he said was inadequate.



Xavier Becerra (D-CA)

He was cautiously optimistic about U.S. trade pacts with Peru and Colombia but had a gloomier prediction about immigration policies. “Perhaps the greatest failure in our policy is immigration. And I see nothing happening to make it better this year,” he said.

U.S. Representative **Henry Cuellar** also underscored the importance of a rational immigration policy and trade, but he said a broad U.S. agenda for the region needed to include natural disasters, foreign aid, energy, and security.

The Texas Democrat said the United States has failed to get out the message on the impact of trade, adding that it was critical that Congress approve pacts with Panama, Peru, and Colombia. He also advocated more U.S. assistance for Mexico. In addition to fighting drug cartels, he said the aid must address education and social issues.

At the same time, Cuellar called for more coordinated regional responses to earthquakes and hurricanes and singled out energy as a key arena for cross-border cooperation.

John Veroneau, deputy U.S. trade representative, challenged comments by the Congress members who said foreign aid to Latin America had declined under the Bush administration, although he agreed with Lowey that more assistance should be directed toward social justice goals. He also said the Bush White House had worked with Congress to broaden the template of pending trade agreements to address labor protections.

Veroneau said the backlash against trade has come from two fronts: those who see globalization as a destructive force and those who believe in its value but fear that the benefits are not far-



Jim Matheson (D-UT), José Miguel Insulza, Gregory Meeks (D-NY), John Veroneau

reaching enough. He said policymakers need to focus attention on the latter group and work to ensure that the gains of globalization are shared broadly.

U.S. Representative **Gregory Meeks** was optimistic about passage of trade agreements with Peru, Colombia, and Panama. The New York Democrat said South American leaders seem dedicated to lifting their people out of poverty and understand the role trade can play in that effort. U.S. Representative **Jim Matheson** of Utah, one of a number of fiscally conservative Democrats in Congress, said he expected U.S. support of trade pacts to begin shifting beyond political party lines.

THE POLITICS OF POVERTY AND GOVERNMENT POLICY

In discussing the politics of poverty, **Marcelo Neri**, director of the Fundação Getúlio Vargas' Center of Social Policies, described Brazil as “probably the most unequal country in the most unequal continent in the world.”

In the past three years, he said 10 million jobs have been created in Brazil, boosting labor income among the poor. He also traced political cycles, noting that per-capita income clearly jumps during times of elections. But he said those gains are quickly lost—a tendency that creates a special problem for the biggest segment of the poor: children.

“In Brazil, and probably in other countries, the main difficulty of dealing with the political economy of poverty alleviation is that many of the poor do not vote—because the poor are mostly children or

“ In the past three years, 10 million jobs have been created in Brazil, boosting labor income among the poor. ”

—Marcelo Neri

“**Most poor people still work illegally or informally, not covered by labor laws or tax laws.**”
—Santiago Levy Algazi

people below voting age,” Neri said. One of the most powerful lifelines for poor children, he said, is a strong education policy.

Mauricio Dávalos, the minister of economic and production quality coordination in Ecuador, said policymakers have erred in expecting market forces to resolve poverty. He said government must also play a role in managing the markets. Absent that, he said, unregulated market forces worsen the unequal distribution of income in underdeveloped societies.

He said the Washington Consensus has proven “highly destructive” in the case of Ecuador, and long-term investment from the private sector has been almost non-existent for nearly a decade. Dávalos said the government of President Rafael Correa has begun investing in health and sanitary projects, public works, and education. Two hydroelectric plants are planned. And efforts are underway to expand the availability of credit.

Santiago Levy Algazi, general manager and chief economist at the Inter-American Development Bank, offered a brighter picture of the past decade, saying the region’s children are better fed and better educated, opening the door for them to enter the job market better prepared. Unfortunately, he added, the region has not ensured that jobs will be available to those children.

“Are we creating decent jobs so there’s a break in the cycle of poverty?” he asked. “The answer is no.”

Levy Algazi said that, unlike Asia, Latin America’s labor markets are not functioning and most poor people still work illegally or informally, not covered by labor laws or tax laws.



Santiago Levy Algazi, Mauricio Dávalos, Nancy Birdsall, Marcelo Neri

The economist noted that some programs designed to address poverty may also be killing incentives for workers to join the formal labor market. He cited health insurance programs for the poor who do not have access to social security. He said the programs may discourage workers from pursuing jobs with social security coverage, which they must pay into.

Latin America is not planting the seeds of sustainability, he said. “There’s a lot of redistribution from the future to the present, including lower public spending. Welfare is high—higher than before—but there are no big macro pressures for reform,” according to Levy Algazi.

MAKING ECONOMIC GROWTH WORK FOR THE POOR

Miguel Castilla, chief economist for the Corporación Andina de Fomento, opened the discussion with three observations. First, there must be growth—and Latin America has not done well in that category, registering economic expansion rates that are a third of those in Asia. Second, the growth must be adequate to improve the welfare and well being of all citizens. And, third, growth alone will not mitigate poverty.

“Talking about Latin America is very tough because there are different and varied experiences,” he said. “But growth hasn’t really been pro-poor.”

The panelists agreed that the region needed to invest more in poverty alleviation. **Anoop Singh**, director of the Western Hemisphere Department at the International Monetary Fund, called Latin America the least successful among emerging markets in sustaining long-term growth. He cited macro-economic instability, adding that the more unequal a society is, the more likely it is to terminate a growth stretch.

Trade, while fueling growth, may also exacerbate inequality, he said. Globalization and foreign investment raise technology levels in a country, increasing the gap between skilled and



Anoop Singh

“**Latin America is the least successful among emerging markets in sustaining long-term growth.**”
—Anoop Singh

“**Afro-Brazilians are at the battlefield in street violence.**”
—**Marcelo Paixão**

unskilled workers and broadening inequality. However, he cautioned that doesn't mean globalization should be avoided—pointing to Asia for lessons.

He said the state must become more active in improving access to education and financial services and in creating jobs so as to offset inequities. He also said workers must be able to move from lower-paying jobs to higher-paying jobs. “In this,” he said, “Latin America is worse than other parts of world. It is inflexible.”

Singh said Latin America has the resources it needs, but it does not use them fairly. “You cannot say you're happy with a situation where you have five times as much spent on subsidies that benefit the rich as you spend on public investment.”

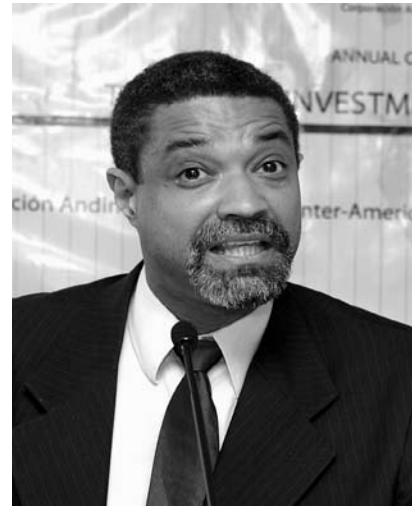
“The issue is how do we convince our political masters to take us into reality,” he added.

Economist **Marcelo Paixão** added race as a factor in the poverty debate. In Andean nations, he said, poverty is disproportionately concentrated among the indigenous population. Throughout the region, black residents are more likely to live in extreme poverty.

The professor at the Instituto de Economia at the Universidade Federal do Rio de Janeiro said 65 percent of Brazil's poor are of African descent, while less than one percent of the corporate executives in Brazil's 500 biggest companies are black. Blacks are also underrepresented in the legislature, and he said Afro-Brazilians, as well as people living in *favelas*, are at the battlefield in street violence, and the front lines of drug trafficking and police corruption. He described them as the object of politics, rather than its players.

Paixão said there is a slice of the population that does not have access to education or the health system and this prevents them from fully developing their lives and breaking their dependence on the state. He also said that economists must take into account the fact that many Latin Americans are “income poor.”

“We have a sector of the economy that does not have enough income to purchase food and essential goods,” he said.



Marcelo Paixão

He also said economic development is equated with big projects rather than activities directly focused on empowering the poor.

Jaime Saavedra, the World Bank's sector manager for the poverty and gender group for Latin America and the Caribbean, said the region is not adequately reducing poverty, no platform for sustainability has been established, and current declines in poverty have come as a result of economic growth rather than reforms.

Saavedra noted that Brazil has had success with conditional cash transfers like the Bolsa Familia, the monthly allowance granted to poor families who meet certain conditions, such as vaccinating their children and sending them to school. He said such programs decrease poverty in the short term, but long-term strategies must include job creation and training. And the transfers must be properly focused on the poor, he added.

"Compare France or the U.K. with Peru, Mexico," Saavedra said. "The richest in France and the U.K. pay the most, and the poor pay the least. Most of the transfers go to the poorest."

But in Latin America, he said, while the rich pay the most—although taxes are low—they also disproportionately benefit through public pensions, energy subsidies, and other transfers.

Eduardo Valencia, president of the Corporación Financiera Nacional in Ecuador, told the conference that not just economic policies but also political philosophies play an important role in the poverty debate. While the percentages of poor people in the region are decreasing, he said the number of poor families is increasing. He added that data do not include illegal immigrants and that all poverty rates would be higher if Latin America were not in the midst of a commodity-export boom.



Jaime Saavedra, Eduardo Valencia

“ In Latin America, the rich disproportionately benefit from the tax system. ”
—Jaime Saavedra

“A move away from Middle Eastern oil offers opportunities for Latin America and the Caribbean.”
—U.S. Representative Eliot Engel (D-NY)

In Ecuador, Valencia said, the Washington Consensus was focused on short-term economic stability, and some indices indicate that effort was successful. “But the objectives were never to create jobs, to end poverty, to attract investment,” he said. “And growth wasn’t on the agenda.”

ENERGY COOPERATION AND POLICY

Energy is emerging as a pivotal issue on many fronts, including in the arenas of security, job creation, alliance forging, and business growth, and Latin America is poised to play a critical role, according to participants in a conference lunch presentation.

Because of security concerns, **U.S. Representative Eliot Engel** said it is crucial for the United States to end its addiction to oil from unstable countries and replace it with

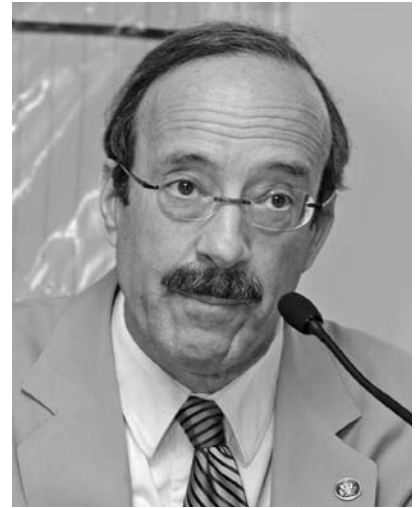
clean energy. He said a move away from Middle Eastern oil offers opportunities for countries in Latin America and the Caribbean.

The New York Democrat called Brazil “the right country to be cooperating with on biofuels” while noting that biofuel industries could also be developed in the Dominican Republic, Haiti, El Salvador, and St. Kitts and Nevis. He said there have been efforts in Peru to replace coca with ethanol-producing crops.

Genaro Arriagada, a former ambassador to the United States and past minister of the presidency in Chile, acknowledged that energy will be on the hemisphere’s agenda for some time, but added that Latin America’s energy sector is not without problems.

He cited reduced crude production in Venezuela and inadequate energy sector investment in Ecuador and Mexico. Bolivia has enormous gas reserves, but it needs significant investment to expand its production capacity, he said, while Argentina, which has Latin America’s highest per-capital consumption of gas, is not engaged in new exploration.

He also said the corporate structures of state energy companies will affect their performance. At one extreme, he referred to *Petróleos de Venezuela* as a troubling corporate structure in which



Eliot Engel (D-NY)

the president of the nation runs the company. At the other extreme is Brazil's Petrobras.

"[Petrobras] is state owned but it operates like a private company, trading on world stock markets," he said. "There is private investment but without any management rights." He said joint ventures are more likely between companies structured like Petrobras but added that regulatory standards set up to protect national products may hamper integration.

Alfred Szwarc, senior advisor to the Board of the Brazilian Sugar Cane Industry Union, predicted that biofuels would be the energy source that will mitigate the region's fuel problems and help alleviate poverty through job creation, particularly in rural areas.

Brazil's leadership in the ethanol arena is evidenced by innovation coming out of that country. State company Petrobras has restructured and no longer sees itself as an oil company but as an energy conglomerate, opening the door for its participation in other energy sectors. Meanwhile, since 2005, Brazilian jet-maker Embraer has been producing a crop duster fueled by ethanol, and U.S.-based Dow Chemical Co. recently announced a partnership with Brazil to produce plastics from ethanol. Brazilian petrochemical company Braskem is also investing in bio-plastics. And the motorcycle industry is talking with Brazilian bio-fuel experts.

Szwarc said alternative energy development would not only benefit energy exporters, but also the region's energy importers, such as the Dominican Republic, Jamaica, and Central America.

David Rothkopf, visiting scholar at the Carnegie Endowment for International Peace, said political shifts, climate change, and

“**Petrobras no longer sees itself as an oil company but as an energy conglomerate.**”
—**Alfred Szwarc**



Alfred Szwarc, Genaro Arriagada, Luis Alberto Moreno

“Recent economic gains in the region show a shift in the impact of the United States.”
—Guillermo Perry

technological developments have converged to make energy an important item on the region’s agenda.

He said he expected dramatic new energy investment and regulation in the region, as well as a recalibration of every country’s energy portfolio. Like Szwarc, he predicted that the energy arena would be an important job creator. He also said that energy could be a diplomatic tool, as well as a greater alliance-builder than even trade.

Although the Americas are now the focus of much innovation, Rothkopf said the region is not guaranteed leadership of the energy front. He pointed out that Europeans lead the world in overall green energy development thanks to government subsidies. And China is investing in green energy. The region will have to foster research-and-development education, investment in new fuel sources, and other pioneering policies to remain competitive, he said.

CHALLENGES FOR THE REGION

Latin America’s challenges include issues of democracy, among them the strengthening of some democracies and the weakening of others, new social movements, and discredited traditional parties and institutions, according to CAF president **Enrique García**. He said the region must reconcile stability and equity with microeconomic issues. It faces doubts about whether free trade agreements with the United States will be approved. Against this backdrop are issues related to security, crime, and immigration.

Guillermo Perry, the World Bank’s chief economist for Latin America and the Caribbean, said recent economic gains show a shift in the impact of the United States on the region. He said Latin America is more resilient than in the past, with higher international reserves and lower external debt. Countries are prepared to go for years without new credit to pay debts, they are less exposed to currency risks, and the commodity markets that Latin America is feeding remain strong.

He acknowledged that Mexico and Central America will feel the effects of a U.S. slowdown more than other countries in the region, but the overall impact will be mild.

Perry said there has been some infrastructure progress in the region but not enough. Educational advances have been made, but they are scattered. And because of internal conflicts, investment is paralyzed in many countries. He said these factors could dilute the potential gains of the economic boom.

“The most complicated issue is that most countries are not doing enough to counter high inequality,” he said, adding that the problem is two pronged: People are not benefiting from economic growth nor are they contributing to growth.

He said these problems are not insurmountable and there are examples of success. In the last two decades, he said, Europe has resolved issues of inequality and pushed its growth in an efficient way.



Miguel Rodríguez Mendoza

Miguel Rodríguez Mendoza, former deputy director-general of the World Trade Organization, linked the erosion of regional integration to Latin America’s declining importance in the global economy—and said this is a critical factor that sets the region apart from Asia.

The region accounts for less than 6 percent of the world’s trade. By contrast, that figure was 12 percent in the 1950s, he said.

Rodríguez also used trade statistics as evidence of the weakening of the integration process. In 1998, some 25 percent of Mercosur’s total trade was commerce among its member countries. That now has dropped to 16 percent, according to Rodríguez Mendoza. A similar falloff has occurred within the Andean Community, where member-country trade accounted for 15 percent of all commerce in 1998 but now barely reaches 10 percent. In Asia, by contrast, 40 percent of trade is intra-regional.

He said countries would be better prepared to confront challenges if they were better integrated, adding that integration is not limited to multi-nation trade blocs but can encompass legal integration such as that seen in the ASEAN countries, like accords between state companies.

Latin America’s weakness is its inability to move forward, according to **Alberto Padilla**, anchor of the “Economía y Finanzas” program on CNN en Español.

He noted that when CNN launched his program, the economic turnaround in Ireland was not yet headline news, nor had India become prominent among emerging economies, nor had China

“ The region accounts for less than 6 percent of the world’s trade in contrast to 12 percent in the 1950s. ”

—Miguel Rodríguez Mendoza

“Most countries have taken advantage of the commodity boom, but they have also missed opportunities.”
—George Gray Molina



Guillermo Perry, George Gray Molina

become a global powerhouse. He pointed out that these flourishing countries have different political conditions, different economic models, and different cultural conditions.

“[Latin America] needs to learn from these examples,” he said. Instead of pondering the path it should take, the region needs to move quickly and capitalize on its current strong position, which includes the absence of staggering inflation.

He called on the region to continue with the second generation of reforms, to attack poverty, to establish clear laws and regulations for investors, to reform labor laws, and to provide greater access to credit.

Much of the debate in Latin America in the past 15 years has been focused in the wrong direction, said George Gray Molina, human development advisor and report coordinator for the United Nations’ Development Programme for Bolivia. He said the region has worried about development models and the role of the state when it should have been thinking about how it could fit into the global economy.

Most countries have taken some advantage of the commodity boom, but they have also missed many opportunities. He said Latin America has not embraced strategies to increase growth and reduce poverty, at the same time that the region has fallen short in the creation of value-added products and niche markets. In Bolivia, Gray said, those markets should include “green trade, fair trade, [and] energy trade.”

Pointing out that a third of Bolivia's population has migrated to urban areas, with an accompanying rise in access to education and infant survival rates, Gray noted that there is no accompanying increase in higher-paying jobs. He blamed the country's export profile, which is dependent on silver and tin mining, as well as natural gas exploitation, and called for countries to move away from exports based on cheap labor and an abundance of natural resources.

Teodoro Petkoff, a longtime figure in Venezuelan politics and editor of daily newspaper *Tal Cual*, sparked a lively debate by characterizing the United States as the most important challenge for Latin America. "A huge neighbor that either invades us or ignores us is a problem," he said.

Petkoff criticized the United States for exaggerating the destabilizing power of Venezuelan president Hugo Chávez. He said the United States once blamed the Russians for everything they didn't like in Latin America, then Fidel Castro and now Chávez. He called Chávez a serious threat to Venezuelans and their institutions, but said he is neither a threat to the United States nor to the region.

Despite Chávez's socialist rhetoric, Petkoff said, the Venezuelan president is an old-style *caudillo* who is putting tight controls on the society, injecting government and politics into sports and culture, using schools as an instrument of politicization, increasing the military presence in the government, and trying to control the press. He said crime and violence in Venezuela has reached untenable levels.



Rodrigo Pardo, Teodoro Petkoff

**“Chávez is
neither a threat to
the United States
nor to the region.”
—Teodoro Petkoff**

Petkoff acknowledged that poverty levels have declined and the country now has more social safety nets, but he said the poor still don't have jobs.

Corporación Andina de Fomento (CAF)

11th Annual Conference on Trade and Investment in the Americas

September 4 and 5, 2007

Washington, DC

Carnegie Endowment for International Peace

1779 Massachusetts Avenue, NW

AGENDA

Tuesday, September 4

2:00 – 2:30 p.m. *Welcome and Opening Remarks*

Enrique García, *President, Corporación Andina de Fomento*

Peter Hakim, *President, Inter-American Dialogue*

2:30 – 4:30 p.m. *Political Scenarios*

Moderator: Peter Hakim, *President, Inter-American Dialogue*

Fernando Bustamante, *Minister of Internal and External Security Policy
Coordination, Ecuador*

Rodrigo Pardo, *Editor of Semana and Former Minister of Foreign
Affairs, Colombia*

Luis Hernando Larrazábal, *Former Minister of Development Planning of
Bolivia and Executive Director, Inter-American Investment Corporation*

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

4:30 – 6:00 p.m. *Security and Governance*

Moderator: Ana Mercedes Botero, *Head of the Office of External Relations,
Corporación Andina de Fomento*

Gustavo Fernández, *Former Minister of Foreign Affairs, Bolivia*

Juan Gabriel Valdés, *Former Minister of Foreign Affairs, Chile*

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

Eduardo Stein, *Vice President, Guatemala*

Wednesday, September 5

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

8:15 – 8:30 a.m. *Introductory Remarks*

Enrique García, *President, Corporación Andina de Fomento*

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

8:30 – 10:00 a.m. *The U.S. Agenda in Latin America*

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

Panel I

Nita Lowey, *U.S. Representative (D-NY)*

Xavier Becerra, *U.S. Representative (D-CA)*

Henry Cuellar, *U.S. Representative (D-TX)*

Panel II

John Veroneau, *Deputy U.S. Trade Representative*

Gregory Meeks, *U.S. Representative (D-NY)*

Jim Matheson, *U.S. Representative (D-UT)*

10:00 – 11:30 a.m. *The Politics of Poverty and Government Policy*

Moderator: Nancy Birdsall, *President, Center for Global Development*

Marcelo Neri, *Director, Center of Social Policies at Fundação Getúlio Vargas*

Mauricio Dávalos, *Minister of Economic and Production Policy Coordination, Ecuador*

Santiago Levy Algazi, *General Manager and Chief Economist, Inter-American Development Bank*

11:30 a.m. – 1:00 p.m. *Making Economic Growth Work for the Poor*

Moderator: Miguel Castilla, *Chief Economist, Corporación Andina de Fomento*

Anoop Singh, *Director, Western Hemisphere Department, International Monetary Fund*

Marcelo Paixão, *Professor, Instituto de Economia, Universidade Federal do Rio de Janeiro*

Jaime Saavedra, *Sector Manager for the Poverty and Gender Group, Latin America and the Caribbean, World Bank*

Eduardo Valencia, *President, Corporación Financiera Nacional, Ecuador*

1:00 – 3:00 p.m. *Working Luncheon: Energy Cooperation and Policy*

Moderator: Luis Alberto Moreno, *President, Inter-American Development Bank*

Eliot Engel, *U.S. Representative (D-NY)*

Genaro Arriagada, *Former Minister of the Presidency, Chile*

Alfred Szwarc, *Senior Advisor to the Board, Brazilian Sugar Cane Industry Union*

David Rothkopf, *Visiting Scholar, Carnegie Endowment for International Peace*

3:00 – 4:30 p.m. *Challenges for the Region*

Moderator: Enrique García, *President, Corporación Andina de Fomento*

Teodoro Petkoff, *Editor, Tal Cual – Diario Vespertino, Venezuela*

Alberto Padilla, *Anchor, Economía y Finanzas, CNN en Español*

Guillermo Perry, *Chief Economist for Latin America and the Caribbean, World Bank*

Miguel Rodríguez Mendoza, *Former Deputy Director-General, World Trade Organization*

George Ronald Gray Molina, *Human Development Advisor and Report Coordinator, United Nations Development Programme, Bolivia*

6:00 – 8:00 p.m. *Reception at the Art Museum of the Americas*

Organization of American States

201 18th Street, NW

Remarks by José Miguel Insulza and Enrique García

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PROFILES OF SPEAKERS

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

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

Nancy Birdsall is president of the Center for Global Development.

Ana Mercedes Botero is head of the Office for External Relations at the Corporación Andina de Fomento (CAF).

Fernando Bustamante is Ecuadorian minister of internal and external security policy coordination.

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

Henry Cuellar is a member of the U.S. House of Representatives (D-TX). He serves on the Homeland Security and Agriculture Committees.

Mauricio Dávalos is Ecuadorian minister of economic and production policy coordination.

Eliot Engel is a member of the U.S. House of Representatives (D-CA). He is chair of the Subcommittee on Western Hemisphere Affairs of the Foreign Affairs Committee and a member of the Energy and Commerce Committee.

Gustavo Fernández Saavedra served as minister of foreign affairs and minister of the Presidency of Bolivia. He was Bolivia's general counsel in Chile and ambassador to Brazil.

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

George Ronald Gray Molina is advisor for human development and coordinator for the human development report at the United Nations Development Programme in Bolivia.

Peter Hakim is president of the Inter-American Dialogue.

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

Luis Hernando Larrazábal is executive director of the Inter-American Investment Corporation at the Inter-American Development Bank. He was minister of development planning of Bolivia.

Santiago Levy Algazi is general manager and chief economist at the Inter-American Development Bank.

Nita Lowey is a member of the U.S. House of Representatives (D-NY). She chairs the Appropriations Subcommittee on State, Foreign Operations, and Related Programs and is a member of the Homeland Security Committee.

Jim Matheson is a member of the U.S. House of Representatives (D-UT). He serves on the Energy and Commerce Committee.

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

Luis Alberto Moreno is president of the Inter-American Development Bank and was ambassador of Colombia to the United States.

Marcelo Côrtes Neri is director of the Center of Social Policies at Fundação Getúlio Vargas in Brazil.

Alberto Padilla is financial and business news anchor for CNN en Español. He runs the “Economía y Finanzas” newscast.

Marcelo Paixão is professor of economic science at the Instituto de Economia of Universidade Federal do Rio de Janeiro.

Rodrigo Pardo is editor of *Semana* and was director of *El Tiempo* in Colombia. He served as minister of foreign affairs.

Guillermo Perry is chief economist for Latin America and the Caribbean at the World Bank.

Teodoro Petkoff is editor of *Tal Cual – Diario Vespertino* of Venezuela.

Miguel Rodríguez Mendoza was deputy director-general of the World Trade Organization. He served as secretary of state and president of the Venezuelan government’s institute of foreign trade.

David Rothkopf is a visiting fellow at the Carnegie Endowment for International Peace.

Jaime Saavedra is sector manager for the Poverty and Gender Group at the World Bank’s Latin America and Caribbean Department. He was executive director at Grupo de Analisis para el Desarrollo (GRADE) in Lima, Peru.

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

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

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

Eduardo Stein is vice president of Guatemala. He served as foreign relations minister and participated in the final negotiating phases of the country's peace process.

Alfred Szwarc is senior advisor to the board of Brazilian Sugar Cane Industry Union (UNICA). He is founder and director of the renewable fuels consulting firm, ADS Technology & Sustainable Development.

Juan Gabriel Valdés is former minister of foreign affairs of Chile. He was head of the United Nations Stabilization Mission (MINUSTAH) in Haiti.

Eduardo Valencia is president of Corporación Financiera Nacional in Ecuador. He served as director general of Ecuador's Central Bank.

John K. Veroneau is deputy U.S. trade representative.

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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