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Trade and Investment in the Americas



*Corporación Andina
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*Inter-American
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IX Annual
Conference

Corporación
Andina de
Fomento
(CAF)

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

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Foreword

The ninth annual Corporación Andina de Fomento (CAF) Conference on Trade and Investment in the Americas was held on September 7 and 8, 2005 in Washington, D.C. The conference brought together some 200 people—members and staff of Congress; leading Washington policy analysts and distinguished journalists; senior officials from the U.S. government, Latin American governments, and international organizations; and a range of U.S. and Latin American corporate and financial leaders. Over two days, participants engaged in intense and expansive discussions about the Andean region and hemispheric affairs generally. We are pleased to provide you with this report on the exchange.

As we look ahead to our 2006 conference, we have been focusing a great deal of attention on the series of 13 presidential elections taking place in Latin America in the course of this year and last. However they turn out, these elections will leave a lasting impact on the region and its international relations. The elections in all five Andean countries are especially important.

President Evo Morales, who won some 54 percent of the vote in the first round of balloting, came to office in January with greater legitimacy and a stronger mandate than any Bolivian president in memory. In his first months of office, he has taken several dramatic and highly controversial steps to give the state a greater role in the economy, nationalize the country's energy resources, forge close political and economic ties with Venezuela, and recast Bolivian politics to reflect the nation's majority indigenous population.

In Peru, former President Alan García, who left the country's institutions and economy in shambles when he left office in 1990, won a convincing run-off victory over his ultra-nationalistic rival Ollanta Humala in June 2006. Just prior to the election, Peru completed and signed a bilateral free trade agreement with the United States—which the Peruvian Congress has since ratified and now awaits a vote in the U.S. Congress. The Peruvian economy is registering its fifth straight year of solid growth.

Following a change in the Colombian constitution, which allowed him to run for a second term, President Álvaro Uribe was easily reelected with more than 60 percent of the vote. He was mainly rewarded for his administration's success in improving security for most Colombians. He has also managed to achieve a strong record of economic growth and stability, and completed negotiations for a free trade agreement with the United States.

Ecuadorans go to the polls in October to elect a new president. For the past several years, the country has been marked by political instability, as its last three presidents were all forced to leave office before the end of their terms. Despite its oil resources, Ecuador's economic performance has been uneven in recent years.

“This year's
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**“ President Chávez’s
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U.S.-Ecuadoran negotiations toward a free trade pact have been on hold since June when Ecuador decided to suspend Occidental Petroleum’s operations in the country for contractual violations.

Venezuela’s presidential election is in December when President Hugo Chávez is expected to retain office. Venezuelan politics remain intensely polarized between supporters and opponents of Chávez, who has increasingly centralized governing power and continues a virulent campaign against U.S. influence in Latin America. His decision to leave the Andean Community has disrupted that long-standing trade arrangement. It is still early to assess the consequences of his joining the Mercosur.

The annual CAF conference is jointly sponsored by the Corporación Andina de Fomento, the Organization of American States (OAS), 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 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, 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.

The CAF Conference on Trade and Investment in the Americas results from collaboration among many people and several institutions. In particular, we want to recognize the valuable contribution made by the conference participants themselves, who shared their analysis and recommendations with cogency and intelligence.

CAF President Enrique García, recently elected to his fourth five-year term, has provided continuing commitment and intellectual guidance to the conference since it was initiated in 1997. We are also grateful for the leadership of OAS Secretary General José Miguel Insulza, who this September will be participating in the conference for his second year. 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 Rebecca Trumble for the day-to-day management of conference preparations and its implementation. The Dialogue’s Megan Fletcher served as rapporteur of last year’s meeting and drafted this report.

Peter Hakim
President
Inter-American Dialogue

Rapporteur's Report

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

September 7-8, 2005

OPENING REMARKS

Latin America is faced with a window of opportunity that must be carefully managed, explained **Enrique García**. A high demand for investment and improved regional economic performance is due in part to an excellent international economy. The Chinese have entered the scene and heavily invested in Latin America. The difficult years at the end of the 1990s that prompted Latin Americans to question the reform process earlier in the decade are securely behind them.

García warned, however, that grave problems still exist. (1) Latin America has low, volatile growth rates along with a high concentration of raw materials. (2) A low savings rate persists across the region. (3) Income distribution in Latin America is the worst in the world. (4) Extreme poverty is increasing. In order to address these deficiencies, achieving high, stable economic growth is essential.

Unless you have high and good quality growth, there will be little other advance, noted García. In the early 1990s, a good macroeconomic picture was seen as sufficient for growth. However, reforms at the microeconomic level, such as increases in productivity, are now also viewed as essential. Investment in all kinds of

“ Unless you have
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little other advance.”
(García)



CAF President Enrique García, Amb. Andrés Bianchi of Chile, Senator Norm Coleman (R-MN)

“The fact that economic growth has not reduced poverty and income disparities has much to do with the weakness of state institutions.”
(Insulza)

capital is necessary: (1) natural capital (natural resources and the environment); (2) human capital (people, education, and health); and (3) social capital (civic participation and the strengthening of political parties). García also noted that a real understanding of the benefits of free trade is missing.

García concluded his comments with a series of questions: How do we ensure benefits from trade agreements in terms of improvements in the quality of life? How do we diminish the gap that separates Latin America from the rest of the world? In 1950, Latin America was the second most important region in the world and now it is sixth. García argued that this must change.

José Miguel Insulza sees political instability in the region as a major threat to the sustainability of economic growth. In spite of strong economic growth in the last few years, both poverty and income distribution inequality (both within and between countries) remain disturbingly entrenched. The fact that economic growth has not simultaneously reduced poverty and income disparities in the region has much to do with the weakness of state institutions, asserted Insulza.

He noted that 2004 saw the strongest growth in Latin America in the past 25 years. The Andean Community's growth rate is a high 7.3 percent (although much of this is due to oil in Venezuela), trade activity remains robust, and inflation has stabilized at a relatively low one-digit level (except in Venezuela). Still, the poorest countries in the region lag far behind on the fulfillment of the Millennium Development Goals. High unemployment continues to stagnate.

Insulza asserted that in several countries from November 2005 through October of 2006 elections and their outcomes would



Sec. Gen. Allan Wagner of the Andean Community, OAS Sec. Gen. José Miguel Insulza, Rep. Jerry Weller (R-IL)



Rep. Dan Burton (R-IN), CAF President Enrique García

definitively affect the political stability of the region, governance, and growth prospects.

Free trade is instrumental to ensuring the strengthening of fledgling democracies in the hemisphere, affirmed **Dan Burton (R-IN)**. Burton argued that the best way to guard the flourishing of democracy in the region is to guarantee citizens' access to health coverage and jobs, and to facilitate a sense of economic well-being. Burton declared that the United States is committed to negotiating an Andean Free Trade Agreement that will be beneficial for everyone.

Jim Kolbe (R-AZ) noted that the partnership between the United States and Latin America can be enhanced through cooperation to fulfill Millennium Challenge Account objectives and reform immigration. Kolbe predicted lawmakers will develop some form of immigration legislation, an issue that Americans are going to insist be brought to the table. The “hardening” of the border as a result of boosted security measures since September 11, 2001 has reduced the circularity of immigration, Kolbe said. Rather than coming to the United States for months at a time, illegal immigrants stay in the United States for much longer periods. They know it will be more difficult to re-enter once they have left.



Rep. Jim Kolbe (R-AZ)

Looking ahead to an Andean Free Trade Agreement, Kolbe acknowledged that it could be difficult to overcome the “partisan

“**The United States is committed to negotiating an Andean Free Trade Agreement that will be beneficial for everyone.**”
(Burton)

“U.S. trade policy
has disintegrated into a
partisan battle.”
(Becerra)

polarization” generated by the battle in Congress over the Central American Free Trade Agreement (CAFTA). Congress passed the trade deal in July after the House of Representatives approved it by a narrow margin of two votes.

Xavier Becerra (D-CA) agreed that U.S. trade policy has disintegrated into a partisan battle, adding that he was in support of a



Rep. Xavier Becerra (D-CA)

free trade accord with Central America but opposed to the CAFTA accord that passed through Congress this summer. In his view, it is not a matter of whether the United States should pursue regional integration, but of when and how to do so. Becerra stressed the need in Congress for a more bipartisan approach to formulating trade agreements.

Nita Lowey (D-NY) discussed her concerns regarding the Andean Free Trade Pact in light of the recent debate over CAFTA. She warned that CAFTA left many supporters of free trade in the U.S. Congress feeling like their input was disregarded. Lowey stressed the need for Andean Free Trade Agreement negotiators to ensure that free trade is fair trade.

She stressed the following three points. First, the accord must complement rather than undermine the United States’ limited success in its counterterrorism and narcotics agendas. The United States needs to have safeguards in place to avoid the crowding-out of locally grown crops, promoted as agricultural alternatives to coca, in the face of a flood of cheap U.S. products in the domestic market. Second, the pact must guarantee strong labor provisions. Lowey is concerned with heightened violence towards labor leaders and workers in Colombia. The free trade accord presents an opportunity to examine labor policies that are not working. Third, Lowey underscored that the benefits of the U.S.-Andean free trade pact be directed to the rich and poor alike. Trade should not solely benefit entrepreneurs in the export business, but should also alleviate poverty.

One reason opposition to CAFTA was so strong was that it took on a number of other partisan issues that it should not have, explained **Tom Petri (R-WI)**. As CAFTA countries go about implementing the agreement, Petri highlighted the need for infrastructural improvements in order to reap the benefits of trade in the region. Infrastructure creates jobs and enhances trade.



Rep. Tom Petri (R-WI), Dialogue Board member Bill Friend, Rep. Nita Lowey (D-NY)

He noted that the U.S. House of Representatives' Transportation Committee has attempted to revive the Pan-American Highway project in order to help bolster infrastructure development in Central America to these ends.

POLITICAL CHALLENGES: THE U.S. AND LATIN AMERICA

José Angel Gurría stressed that while Latin American economic indicators for 2004 and 2005 are generally encouraging, political decision making has failed—with dire, immediate economic consequences. Gurría asserted that reform of the tax collection and education systems, including higher government investment in education, is key to alleviating poverty and climbing out of the region's low-growth trap. He cautioned, however, that it will take time for the gains from increased investment in education and other areas to materialize, as countries in the region must make up for lost time on these fronts. Gurría worries that in Latin America there have been too many interruptions in economic and political stability. This pattern must be broken with a long-term investment strategy.

Allan Wagner emphasized that Latin America must pay particular attention to the need for social inclusion in economic growth. Ignoring the need for equal access to education and job-training could result in problematic social and political consequences. One consequence of scarce employment opportunities in the Andean countries—where only two-thirds of the needed jobs are available—is the growth of the informal sector. On agriculture, a main obstacle in bilateral trade negotiations between the United States and Andean nations, Wagner said the Andean economies require substantial access to the U.S. mar-

“**Reform of tax collection and education is the key to alleviating poverty and climbing out of the region's low-growth trap.**”
(Gurría)

“Agriculture is a main
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(Wagner)

ket and those of developing countries. He proposed that U.S.-Andean relations reflect a new agenda that strengthens democracy through socially inclusive growth, fosters a culture of dialogue, promotes trade, and seeks security and energy cooperation.

Bernardo Álvarez argued that poverty and inequality are the main obstacles to growth in the region. Álvarez stressed that the Venezuelan government’s approach—community-based programs to improve education, health, housing, food security and culture—to combating the social plagues and exclusion generated by previous administrations is a direct departure from previous policies.

Paulo Sotero explained that there are two things the Brazilian people will no longer tolerate: inflation and corruption. He noted that the bribes-for-votes scandal raging since June is the largest corruption scandal in the country’s history. However, he commended the press for being impressively aggressive. Reforms are being enacted in Brazil to correct a system that allows corruption to pervade political institutions. Brazil is focused inward on rebuilding the credibility of its political system.

STATUS OF THE U.S.-ANDEAN FREE TRADE NEGOTIATIONS

Marta Lucía Ramírez laid out her three concerns regarding the Andean Free Trade Agreement negotiations presently underway: time sensitivity, the need for improved transparency, and U.S. “neo-protectionism.” Although the negotiations received considerable publicity, she asserted that media publicity was not equivalent to transparency in the negotiation process.



Guillermo Perry of the World Bank, Marta Lucía Ramírez of Colombia

Ramírez charged that the United States has not responded in a timely manner to Andean countries' proposals. The United States remains noncommittal regarding the allowance of Colombian flowers and Peruvian tuna into its markets, while demanding immediate access to Andean industrial markets. According to Ramírez, it seems appropriate, given stiff U.S. protectionist demands, for the United States to allow the Andean countries parallel exceptions: some exclusion of U.S. goods, longer transition periods, safeguards, and asymmetrical tariff reduction. Ramírez urged that good faith bargaining requires the United States to acknowledge and answer these proposals. Otherwise, the United States' behavior provides ammunition to the Andean countries' anti-globalization movement, who conclude that the negotiations are under U.S. control.

Negotiations of the U.S.-Andean Free Trade Pact are reminiscent in some ways of the CAFTA process, observed Ramírez. Special side deals and subsidies—many that counter the spirit of trade liberalization—have to be handed out to special interests in order for the trade pact to be permissible in Congress. Sugar, textiles, apparel, and intellectual property rights will be sticking points on the U.S. side for the Andean accord. For these reasons, many in the United States are pessimistic about the prospects for congressional approval of the Andean free trade pact.

In other respects, the U.S.-Andean trade pact is distinct from CAFTA. Ramírez compared the context for the Andean accord to that of Chile's or Mexico's, when these countries were seeking a trade agreement with the United States. The Andean region is not only a larger market than that of Central America, but also a strategic ally in the drug war, counter-terrorism, and democracy promotion. Benefits of the agreement will be crucial and urgent for the Andean countries in the face of competition from China.

Hernando José Gómez emphasized Colombia's stakes in the Andean free trade pact and the urgent timetable for the completion of trade negotiations before Colombian elections in May of 2006. Negotiation of agricultural product restrictions (including Colombia's sensitive rice, corn, and chicken) and phytosanitary and sanitary measures are the two primary issues lagging in the trade negotiations. The goal would be to conclude the negotiations with only two additional rounds by October 2005, present the proposed agreement immediately to Congress, revise it over the winter, and sign it in February. The Congressional debate would take place during the spring of 2006 and Colombia would get a constitutional amendment to enshrine the agreement in the fourth quarter of 2006.

“U.S. behavior provides ammunition to the anti-globalization movement.”
(Ramírez)

“**Constituents in the Andean countries are pushing for an agreement that improves upon the minimalist environmental protection and labor standards in CAFTA.**”
(Espinosa)

Gómez contended that if parties to the Andean Free Trade Agreement negotiations do not adhere to this time frame, negotiations could be abandoned altogether as political attention is diverted elsewhere. He is adamant that this free trade pact is an integral part of Colombia’s development strategy. Colombia needs increased export revenues from trade and higher investment rates (from the current rate of 18 percent of Gross Domestic Product to 24 percent) in order to meet its goal of 5 percent annual growth. If the Andean region does not capitalize on this opportunity, he fears the effects of serious trade and investment diversion from the Andean region to countries that already have bilateral free trade agreements with the United States.

Cristián Espinosa explained that the Andean countries aim to craft an agreement distinct from CAFTA and other previous U.S. free trade agreements. Still, they find themselves forced to weigh many of the same tradeoffs in the negotiation process: agriculture, biodiversity, intellectual property rights, special exemptions, and investment.

Espinosa clarified that there are important differences between the Andes and Central America and among the Andean countries themselves. First, Colombia fits into the U.S. geopolitical strategy far differently than any Central American country. Second, Ecuador has internal political problems that Colombia and Peru do not. Third, Peru is looking to lock in economic reforms already in place, and Ecuador does not have this record of recent reforms.

Constituents in the Andean countries are pushing for an agreement that improves upon the minimalist environmental protection and labor standards in CAFTA. However, Espinosa contended that structural reform of Andean countries’ environmental and labor standards are separate tasks that should be addressed outside of the trade pact. He warned that Andean governments will have to endure intense political pressure against free trade. In Colombia, Uribe’s popularity will help mitigate these pressures. Current favorable economic growth will moderate unrest in Peru. Ecuador unfortunately does not have these factors to fall back on.

Pablo de la Flor appeared optimistic about the prospects of trade for growth. Since Peru’s incorporation into the Andean Community free trade zone, its exports to the United States have multiplied fourfold. Export industries are moving outside Lima, resulting in diminished socio-economic inequality between Lima and the rest of the country. Given these positive developments, de la Flor asserted that opposition to the U.S.-Andean Free Trade Agreement signifies a lack of support for continued progress in poverty reduction.

De la Flor admits, however, that Peru still faces several challenges in the negotiation of the trade agreement with the United States. Given the battle over agriculture in CAFTA, de la Flor sees little room for flexibility in the consideration of Andean agricultural sensitivities. If confronted with a flood of U.S. agricultural products, he worries that the lack of safeguard mechanisms could undermine the very projects that the U.S. government promotes and funds to provide agricultural development alternatives to growing coca, the plant from which cocaine is made. The United States has rejected Peru's proposed World Trade Organization (WTO)-plus provisions—concessions an individual country may request of its trade partner that go beyond standard WTO rules—for intellectual property rights, including mechanisms for protecting biodiversity and the sharing of genetic information with indigenous groups.

Like Gómez, de la Flor sees political advantages to swift progress in negotiations for an October 2005 conclusion. Peruvian elections are scheduled for April 9, giving this president and Congress a narrow time period to vote on the accord before a change of government. Upon passage of the agreement, de la Flor concluded that Peru's institutional capacity to implement all the provisions in the trade pact will be a further challenge.

Jaime Aparicio identified three dimensions of Bolivia's political crisis that impeded its active participation in the Andean Free Trade Agreement (in which it currently serves as an observer): social conflicts, economic progress, and the Hydrocarbons Law. He asserted that social upheaval is now destabilizing the political system that was functioning relatively well during the preceding twenty years. The five-year economic recession (1998-2003) led to a degradation of the political system and encouraged this social unrest. Growth is still volatile given international gas and soy prices. Furthermore, the Hydrocarbons Law has paralyzed investment and sown uncertainty in the industry. U.S. foreign direct investment (FDI) has fallen by 25 percent. Most significantly, it limits Bolivia's position with regard to the U.S.-Andean trade agreement.

Aparicio declared that Bolivia must find a way to achieve sustained growth. Less than 4 percent growth over the last several years has produced thousands more poor Bolivians. Stable growth will require increased productivity, employment, foreign investment, and access to new markets. Bolivia would have a significant stake in a U.S.-Andean free trade pact due to the complementary structures of Bolivian and U.S. production. The United States is

“**Less than 4 percent growth over the last several years has produced thousands more poor Bolivians.**”
(Aparicio)

“ Unless China suffers a major setback, terms of trade will remain favorable for the region.”
(Calvo)

Bolivia's primary market for its manufactured exports like textiles, wood, and jewelry.

Aparicio warned that isolating Bolivia from the trade agreement will have a destabilizing impact in the region. Without employment and without FDI, he contended, the “anti-system” forces will only grow.

LATIN AMERICA IN THE GLOBAL ECONOMY

Miguel Castilla fears that the increased openness of Latin American economies has increased their vulnerabilities to international and domestic conditions. The results of economic reforms have been disappointing. Exports and growth levels have increased, but not at the rate needed for the region to remain competitive internationally. In the last twelve to thirteen years, Latin American exports have only doubled while other regions (most notably, Asia) have increased their exports by more than six-fold. Despite an increased internationalization of the region, Castilla is concerned about a lack of consensus regarding the results of free trade at home in the region. Weak states have failed to capitalize on recent growth and deliver basic services. Castilla argued that Latin America and the Caribbean need to deepen and diversify market access in order to foster long-term growth, decrease poverty, and improve equity. The region must increase productivity, focusing on valued-added goods.

Guillermo Calvo was more optimistic about the region's economic situation. Very low long-term interest rates, improvement in the terms of trade, and increased capital inflows are encouraging signs for growth. However, as the region's experiences with the Russian and the Asian economic crises demonstrate, this auspicious situation could change rapidly. Investment collapsed and growth was flattened with massive capital flight from Latin America's emerging markets following these international crises.

Although interest rates may rise as a result of the recent devastation of hurricane Katrina, Calvo estimates that the region's low long-term interest rates may last one or two more years. Unless China, a large consumer of Latin America's raw materials, suffers a major setback, Calvo predicted that terms of trade will remain favorable for the region. Under these current conditions, Calvo recommended that countries utilize a modest increase in fiscal surpluses to increase savings. Countries should also invest in improving competitiveness, strengthen infrastructure, and overhaul

the domestic financial sector. Given the financial complications that dollarization would present should economic crisis arise, Calvo suggested that Latin American countries de-dollarize as well as develop credit lines with banks and international institutions.

Alejandro Foxley examined the question of how the Andean region might find its place in the global economy. He recognized that global competition is increasingly between regions rather than between countries. He asked whether regional integration would come first for Latin America or whether countries would seek relationships with world economic powers in order to establish themselves in the international market. In Asia, countries first sought to establish themselves in international markets, and only later entered into regional agreements. In Latin America this process seems to be happening the other way around.

Still, regional integration has proceeded slowly. Intra-regional commerce constitutes only 20 percent of economic activity in the region. In Mercosur, 70 percent of decisions made at the regional level are not incorporated at the domestic level. Even when incorporated statutorily, enforcement is very weak. Foxley believes that South American business and industry must further integrate, following a model similar to that of Europe. Policies should be synchronized so that companies can move comfortably between countries. Foxley noted that both presidents Lagos of Chile and Chávez of Venezuela have expressed interest in pursuing a European model of regional integration.

In closing, Foxley warned that every seven or eight years a global economic crisis hits. He explained that following the last crisis, Latin America took six years to adjust while other regions took only two or three years. He challenged Latin America to make a more speedy adjustment upon the next economic crisis.

Guillermo Perry emphasized that it is important that Latin America take advantage of an economic upswing that may last only a few years to save and invest in the future. He is concerned that the majority of the region is neglecting this principle, with the exception of Chile and perhaps Brazil. Latin American countries should pay more attention to improving their fiscal situation for the long-term—saving now for later—and investing more in technical capacities and education. Short-term economic prospects for the region appear favorable: growth rates of about 3.5 to 3.7 percent, although he predicts higher rates closer to 4.3 percent. Perry affirmed that countries are working hard to retain positive growth

“**Both presidents Lagos of Chile and Chávez of Venezuela have expressed interest in pursuing a European model of regional integration.**”
(Foxley)

“Central banks can have a positive impact on long-term stability in the region.”
(Redrado)

from the last few years. Despite concerns regarding the durability of this moderate growth, thirteen countries recently surveyed in the region show no sign of economic slowdown.

Nevertheless, Perry cautioned that the region remains vulnerable to international conditions: only moderate rates of foreign investment, foreign capital flows, exchange rate variation, debt structure, little available foreign credit, deficits in U.S. current accounts, and rising commodity prices. Oil-importing countries in the region are increasingly susceptible to rising oil prices. Commodity prices have increased with the influence of Asia, and specifically China. Certain sectors, particularly clothing and textiles, will confront competition difficulties. Furthermore, reforms have not increased the resilience of economies in the face of external shocks. However, Perry urged that if the region invests more in research, particularly research in commodity exports, it will be able to lessen these external vulnerabilities. He added that it was promising to see countercyclical policies showing up in Latin America for the first time.

Martín Redrado asserted that political stability in Latin America has led to sound economic policies. Governments have made a convincing shift to fiscal discipline. Redrado was more optimistic than Perry. Reformed tax policy, improved external shock adaptation capabilities (with flexible exchange rates), and broader trade diversification in the face of Chinese competition were three examples he gave that demonstrate strengthened economic policy.

However, he warned that Latin American competitiveness is still lacking compared to other regions. Attracting foreign direct investment thus proves difficult. Still, he argued that with strong macroeconomic policies in the region and a regional current account surplus of approximately 1 percent, mid-term economic conditions look promising. Flexible economic policies will lead to increasing resilience and decreased vulnerability.

Redrado emphasized the positive impact that Central banks can have on long-term stability in the region. By increasing bank reserves, they improve capacity to act in an economic downturn. He reported that reserves have increased by \$50 billion in the top nine Latin American economies, creating a surplus of over \$200 billion. Nevertheless, central banks face needed institutional strengthening and financial consolidation. Redrado proposed that central banks act independently and ensure accountability and transparency. The objective is to have accountable, transparent central banks that act independently from the administration.

U.S.-ANDEAN FREE TRADE NEGOTIATIONS

Juan Manuel Santos warned that popular support in Colombia for the Andean Free Trade Agreement is steadily decreasing. He expects that the upcoming presidential elections in Colombia, Ecuador, and Peru will only further politicize the agreement negotiations. Given this context, Santos advocated swift progress on the free trade agreement.

Santos contended that U.S. inflexibility during negotiations had aggravated popular dissent in Colombia and had become a major obstacle to swift progress at the negotiation table. Colombia is waiting for certain information from the U.S. negotiators and for responses to particular proposals in order to move forward. However, questions about agriculture and rules of origin remain unanswered. Furthermore, the United States is reluctant to include protection for biodiversity, which Santos believes would be Colombia's main comparative advantage in the agreement.

Santos emphasized that major movement from the United States is necessary to ensure successful negotiation of an agreement that is acceptable for Colombian ratification. He hypothesized, however, that the present political situation in the United States, including the pending appointments of two new Supreme Court justices and pressures in the aftermath of Hurricane Katrina, were likely to further delay trade negotiations. Santos proposed that it was perhaps appropriate to begin considering an alternative plan for the Andean Free Trade Agreement in which negotiations would be postponed by a couple of years until the political climate was more favorable.

“U.S. inflexibility during negotiations had aggravated popular dissent in Colombia.”
(Santos)



Peter Hakim, Juan Manuel Santos of Colombia, José Ángel Gurría of Mexico

“**The United States has not been unfair in its negotiation conditions and requests.**”
(Vargo)

In response to Santos, **Regina Vargo** defended the U.S. position in the Andean trade pact negotiations. She rejected Santos’ implication that the United States had been unfair in its negotiation conditions and requests. Rather, she stated that the United States had simply been realistic, and she reaffirmed the United States’ continuous support of free trade and regional integration, citing the recent passage of CAFTA as an example.

Although Vargo claimed the passage of CAFTA provided momentum and a sense of urgency for the Andean pact negotiations, she admitted that CAFTA also illuminated the complexities and difficulties of making a trade deal with the United States. She highlighted the need to begin building broad congressional support for future free trade agreements much earlier. Vargo reiterated that trade should be a non-partisan issue.

Vargo noted that Colombia, Ecuador and Peru were to enter into the twelfth round of the trade talks on September 19th in Cartagena, Colombia. She added that the number of times the parties have met was not an indicator of success. While negotiation impediments will likely dictate slow progress for the Andean Free Trade Agreement in the next year, Vargo and Santos each confirmed that the United States and Colombia remain committed to the trade pact. Vargo was optimistic that although the Fourth Summit of the Americas does not have trade as a centerpiece, the meeting represents an opportunity to regain momentum for the Andean trade agreement.

SOCIAL LEADERS: FROM EXCLUSION TO PARTICIPATION

Nancy Birdsall charged that inequality and injustice need to get on the “mental map” of influential economists and policy makers in the region. New evidence shows that most economic inequality is inimical for growth. She emphasized that market policies do not necessarily hurt the poor, but they leave the poor behind. Market reforms—especially of capital and credit markets—have been best exploited by those who could and knew how to use them. In contrast, it is very difficult for the poor to get credit or borrow from banks.

Birdsall asserted that the Andean countries need to go beyond social policy to construct a sound social contract. She is concerned that there is virtually no middle class in the Andean region; the poor constitute 90 percent of the population in a two-class society. Education and other social programs are not sufficient to rectify this severe income distribution problem. The creation of jobs

and labor market reform are critical priorities for the poor—far ahead of addressing corruption and crime, according to the recent *Latinobarómetro*. In addition, sound fiscal policy needs to be made part of the social inclusion message. Birdsall argued that need for reforms of the pension system and an aggressive attack on tax evasion must be part of a new Andean social agenda in order to avoid a return to the dangerous populism of the past.

Yehude Simón proclaimed that democracy must ensure the participation of civil society—that the citizens, rather than politicians, need to be the protagonists. Ideally, state ministers, governors, legislators, and the economy are at the service of citizens—not the other way around. He lamented that most Latin Americans seem disillusioned with democracy and believe that development is more important, according to a recent UNDP study. A majority are willing to accept unconstitutional behavior on the part of the president so long as it brings economic development. He would agree that Peruvian citizens seriously mistrust politicians and their government institutions.

For these reasons, Simón has emphasized the need for corporate social responsibility and transparency in all public activities. His regional government has reflected these goals, seeking to eliminate corruption and regain the trust of the citizenry. He has pursued this trust by demonstrating that there is not necessarily a trade off when it comes to foreign investment; local farmers can benefit.

Juan del Granado spoke of the current social crisis in Bolivia and the Andean region in terms of a deep-rooted historical crisis of racial exclusion of the indigenous communities from the political and economic life of the country and region. The last three presidents fell under the pressure of social protests and mass mobilizations seeking inclusion in social and economic policy decision making. Despite new investments of more than \$5 million, he hypothesized that the lack of job growth has become more visible in the past five years and has led to the questioning of both the political and economic systems.

Del Granado proclaimed that a crisis of governance in the region has exposed the lack of representation, credibility, and efficiency on the part of political parties and the political system as a whole. The region is experiencing a resurgence of the indigenous movement. The façade of a monoculture since the drafting of the 1895 pact has made a cohesive Bolivian state impossible to consolidate. Nevertheless, he finds a glimpse of hope in the pacts

“There is virtually
no middle class in
the Andean region.”
(Birdsall)

“Venezuela’s
state-centered vision of
development concentrates
more on welfare than
citizen empowerment.”
(Sanjuán)

that have recently been established between the socially excluded minority and political parties.

Horst Grebe affirmed that Latin America has made progress in reducing poverty. However, major gaps must be addressed: access to services, political and social participation, stagnant or declined income levels, and a degraded quality of jobs. Two-thirds of the economically active population is employed in the informal sector.

He laid out three steps to appease the mounting social-political crisis. First, politicians must avoid the temptation to give the electorate the impression that problems can be solved by a few competent leaders. Second, the Andean countries need innovative leaders. Thirdly, the governments need to create pacts with entities that are truly representative of the groups they claim to represent.

Given that exports have not led to the levels of growth and job creation needed in Latin America, Grebe declared that the region needs new public policies over the long term. Such policies should prioritize the construction of citizenship. A democratic culture is created through the example of capable leaders, the education system, and the promotion of labor law independent of political interest. Finally, Grebe warned that the notion of a flexible labor market as favorable for attracting foreign investment is hurting the quality of democracy in Latin America.

Ana María Sanjuán described how popular participation in government policy making is evolving in Latin America: political mobilization today means not only targeting the poor as beneficiaries of social policy agendas, but involving the poor in this policy change.

Sanjuán focused on Venezuela where a major reorientation of political participation has occurred over the last five years. A boom of cooperatives (from 800 to 80,000), horizontal technical councils (to resolve water problems), and urban land committees have increased citizen participation in the country’s social economy. However, Sanjuán argued that Venezuela’s state-controlled campaign for citizen participation at times clashes with popular opinion. Its state-centered vision of development concentrates more on welfare than citizen empowerment. She sees this as counterproductive. Although many citizens feel a new sense of inclusion in the Venezuelan political process, Sanjuán worries about the difficulty of establishing methods of accountability for social spending programs and that increased levels of state social spending are not sustainable.

U.S. POLICY TOWARD THE ANDEAN REGION

Charles Shapiro emphasized that the United States seeks cooperative partnerships with Andean countries to tackle common interests—drugs, terrorism, and oil—as well as to strengthen economic growth and democracy in the region. It views U.S. free trade negotiations with the Andean region and bilateral assistance to the region, in excess of \$950 million for FY2006, as strategically central to these objectives. Shapiro noted that this aid is earmarked for anti-narcotics programs, reform of the judicial sector, public health programs, and strengthening governance, among other programs.

Shapiro highlighted particular developments in the Andean region. He congratulated the Bolivian people for having found—twice in the past two years—a constitutional solution to grave democratic crises. Venezuela, on the other hand, has seen an increased concentration of power, politicization of the judiciary, and decline in individual freedom and human rights. Developments such as these that threaten U.S. national interests have posed significant challenges for the U.S. relationship with Venezuela. In contrast, the United States fully supports Colombian President Uribe's ambitious undertaking of a peace process with the paramilitary groups. Finally, Shapiro noted that despite President Toledo's low approval ratings, Peru appears to be turning a corner. The economy is growing and institutions are strengthening under Toledo's leadership.

Juan Tokatlian brought the discussion of U.S. policy towards the Andean region to the structural level, focusing on power asymmetries in U.S.-Andean relations. He believes that a disparity in power and institutional capacity generate differences in interests and misperceptions of one another. This leads to the repetition of failed strategy. Tokatlian observed a dangerous rehearsal of Cold War mindsets vis-à-vis the Andean region. The United States sees an ideological threat in radical populism, which it perceives in Venezuela.

Tokatlian is critical of U.S.-Andean policy. He believes the United States is perpetuating a failed drug policy—both extradition and fumigation are not working. He also charged that the United States has promoted regime change in Venezuela and is upholding a double standard of terrorism (specifically with reference to paramilitary forces in Colombia). Tokatlian hypothesized that the United States is dually responsible for order and disorder in the Andes, as well as being both defender and generator of failed states.

“**The United States fully supports Colombian President Uribe's ambitious undertaking of a peace process with the paramilitary groups.**”
(Shapiro)

**“ U.S. policy towards
the Andes has been
relatively constant since the
Carter administration.”
(Gamarra)**

Gustavo Fernández cautioned that which is beneficial for the United States is not necessarily good for the Andean region. He noted that there seemed to be fatigue in the U.S. Congress with respect to Latin America. Still, he identified three points of intersection of U.S. and Andean visions for the region: security, politics, and the economy.

Eduardo Gamarra explained that U.S. policy towards the Andes has been relatively constant since the Carter administration: the promotion of democracy, sound economics, sustainable development and security. The balance of these above principles has oscillated depending on individual leadership and persuasion in U.S. government agencies, such as the Department of Defense and Department of State. Policy results have been only mixed, often due to the short-term nature of specific administrations' policies. Poor choice of bureaucratic functionaries with short-term political interests has dampened policy effectiveness. Bureaucratic infighting in the U.S. government has also complicated implementation. In short, the obstacles and unintended consequences of policy have overshadowed good intentions on the part of the United States.

IX Annual Corporación Andina De Fomento (CAF)

Conference on Trade and Investment in the Americas

September 7–8, 2005
Washington, DC

AGENDA

Congressional Co-Hosts: Senator Norm Coleman (R-MN), Representatives Xavier Becerra (D-CA), Dan Burton (R-IN), Jim Kolbe (R-AZ), Nita Lowey (D-NY), Tom Petri (R-WI) and Jerry Weller (R-IL)

Wednesday, September 7

Hart Senate Office Building

5:00 p.m. Opening Remarks

L. Enrique García, *Corporación Andina de Fomento*

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

Dan Burton, *U.S. Representative (R-IN)*

Jim Kolbe, *U.S. Representative (R-AZ)*

5:15 p.m. – 7:15 p.m. Political Challenges: The U.S. and Latin America

Bernardo Álvarez, *Venezuelan Ambassador to the United States*

José Angel Gurría, *Former Finance Minister of Mexico*

Juan Manuel Santos, *President, Fundación Buen Gobierno*

Paulo Sotero, *Washington Correspondent, O Estado de São Paulo*

Allan Wagner, *Secretary General, Andean Community*

Chair: Peter Hakim, Inter-American Dialogue

Thursday, September 8

Carnegie Endowment for International Peace

8:30 a.m. – 9:00 a.m. Welcome by Congressional Hosts and Opening Remarks

L. Enrique García, *President, Corporación Andina de Fomento*

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

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

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

9:15 a.m. – 11:15 a.m. Status of U.S.-Andean Free Trade Negotiations

Hernando José Gómez, *Chief Trade Negotiator, Ministry of Trade of Colombia*

Jaime Aparicio, *Ambassador of Bolivia to the United States*

Cristián Espinosa, *Former Undersecretary of Foreign Trade of Ecuador*

Pablo de la Flor, *Vice-Minister of Trade of Peru*

Chair: Marta Lucía Ramírez, Former Minister of Defense and Former Minister of Trade of Colombia

- 11:15 a.m. – 1:00 p.m. *Latin America in the Global Economy***
Guillermo Calvo, *Chief Economist, Inter-American Development Bank*
Alejandro Foxley, *Senator of Chile*
Guillermo Perry, *Chief Economist for Latin America, World Bank*
Martín Redrado, *Governor of the Central Bank of Argentina*
Chair: Miguel Castilla, Head of the Office of Economic Research, Corporación Andina de Fomento
- 1:00 p.m. – 2:15 p.m. *Luncheon Discussion of the Andean Free Trade Agreement***
Regina Vargo, *Assistant U.S. Trade Representative for the Americas*
Juan Manuel Santos, *President, Fundación Buen Gobierno*
- 2:15 p.m. – 4:15 p.m. *Andean Social Agenda: From Exclusion to Participation***
Nancy Birdsall, *President, Center for Global Development*
Juan Del Granado, *Mayor of La Paz, Bolivia*
Horst Grebe, *Former Minister of Social Development of Bolivia*
Ana María Sanjuán, *Professor, Universidad Central de Venezuela*
Yehude Simón, *President, Lambeyeque Regional Government of Peru*
Chair: Ana Mercedes Botero, Director of Community and Cultural Development of the CAF
- 4:15 p.m. – 5:30 p.m. *U.S. Policy Toward the Andean Region***
Gustavo Fernández, *Former Minister of Foreign Affairs of Bolivia*
Eduardo Gamarra, *Professor, Florida International University*
Charles Shapiro, *U.S. Deputy Assistant Secretary of State for Western Hemisphere Affairs*
Juan Tokatlian, *Professor, Universidad de San Andrés of Colombia*
Chair: Michael Shifter, Inter-American Dialogue
- 6:00 p.m. – 8:00 p.m. *Closing Reception at the Organization of American States***
José Miguel Insulza, *Secretary General, Organization of American States*
L. Enrique García, *President, Corporación Andina de Fomento*

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PROFILES OF SPEAKERS

Bernardo Álvarez is the ambassador of Venezuela to the United States. He previously served as vice minister of hydrocarbons in Venezuela's Ministry of Energy and Mines.

Jaime Aparicio is the ambassador of Bolivia to the United States. Previously he served as executive secretary of the Summits of the Americas Secretariat at the Organization of American States. Aparicio has also served as undersecretary of foreign affairs and acting minister of foreign affairs.

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 and Social Security Subcommittees. Becerra is a member of the Congressional Hispanic Caucus and serves as the chairman of its Telecommunications and Technology Task Force.

Andrés Bianchi is the ambassador of Chile to the United States. Bianchi served as the first governor of Chile's autonomous Central Bank from 1989 to 1991 and as chairman of the Dresdner Banque Nationale de Paris in Chile and Credit Lyonnais Chile.

Nancy Birdsall is the founding president of the Center for Global Development. Previously she was senior associate and director of the Economic Reform Project at the Carnegie Endowment for International Peace and executive vice-president of the Inter-American Development Bank.

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

Dan Burton is a member of the U.S. House of Representatives (R-IN). He is chairman of the House Subcommittee on the Western Hemisphere and vice chairman of the Subcommittee on Asia and the Pacific.

Guillermo Calvo is chief economist at the Inter-American Development Bank. He has held tenured positions at Columbia University and the University of Pennsylvania.

Miguel Castilla is the director of economic research at the Corporación Andina de Fomento.

Norm Coleman is a member of the U.S. Senate (R-MN). He serves as chairman of the Senate Foreign Relations Subcommittee on the Western Hemisphere as well as of the Senate Governmental Affairs Committee's Permanent Subcommittee on Investigations.

Cristián Espinosa is former undersecretary of foreign trade of Ecuador. He has also served as a counselor to Ecuador's mission to the World Trade Organization (WTO) and as president of the WTO's Anti-Dumping Group.

Gustavo Fernández is former minister of foreign affairs of Bolivia. He also served as minister of the presidency and minister of integration.

Pablo de la Flor is the vice minister of trade of Peru.

Alejandro Foxley is a senator of Chile and serves as the chairman of the Finance Committee. Foxley previously served as Chile's finance minister and as president of the Christian Democratic Party.

Eduardo Gamarra is professor and director of the Latin American and Caribbean Center at Florida International 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.

Hernando José Gómez is Colombia's chief negotiator for the Andean Free Trade Agreement. He previously served as Colombia's ambassador to the World Trade Organization.

Juan del Granado serves as mayor of La Paz, Bolivia. Del Granado was formerly a member of Bolivia's Congress where he served as president of the Human Rights Commission.

Horst Grebe served as Bolivia's minister of economic development and minister of labor. Grebe was also executive director of the PRISMA institute.

José Ángel Gurría was Mexico's minister of foreign affairs and minister of finance and public credit.

Peter Hakim is president of the Inter-American Dialogue.

José Miguel Insulza is the secretary general of the Organization of American States. He previously 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.

Nita Lowey is a member of the U.S. House of Representatives (D-NY). Lowey serves on the House Committee on Appropriations and is the ranking Democrat on the Subcommittee on Foreign Operations, Export Financing and Related Programs.

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 where he is also chairman of the Highways, Transit and Pipelines Subcommittee. Petri is the vice chairman of the Education and Workforce Committee.

Martín Redrado is governor of the Central Bank of Argentina. He previously served as chairman of Argentina's Securities and Exchange Commission, secretary of state for technical education and secretary of trade and international economic relations.

Marta Lucía Ramírez served as Colombia's minister of defense and as minister of foreign trade, as well as ambassador to France. She is a private consultant in international strategy.

Ana María Sanjuán is director of the Center for Peace and Human Rights at the Central University of Venezuela.

Juan Manuel Santos is president of the Fundación Buen Gobierno. He previously served as minister of finance of Colombia under President Pastrana and minister of trade during the Gaviria administration.

Charles Shapiro is the principal U.S. deputy assistant secretary of state for Western Hemisphere affairs. He previously served as U.S. ambassador to Venezuela and deputy assistant secretary of state for Andean and Caribbean affairs.

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

Yehude Simón is president of the Lambayeque Regional Government in Peru. He previously served as president of the Movimiento Humanista Peruano and as a member of Peru's Congress.

Paulo Sotero is Washington correspondent for *O Estado de São Paulo* of Brazil and a commentator for BBC radio. Sotero teaches at Georgetown University and is a lecturer at George Washington University and the State Department's Foreign Service Institute.

Juan Tokatlian is director of political science and international relations at the Universidad de San Andrés in Argentina.

Regina Vargo serves as assistant U.S. trade representative for the Americas. She served as deputy assistant secretary of commerce for the Western Hemisphere.

Allan Wagner is secretary general of the Andean Community. He previously served twice as Peru's minister of foreign affairs and as ambassador to Spain, the United States and Venezuela.

Jerry Weller is a member of the U.S. House of Representatives (R-IL). He serves on the House Ways and Means Committee and the Committee on International Relations where he is vice chairman of the Subcommittee on the Western Hemisphere.

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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