

Rising Confidence in Latin America



XIV Annual CAF Conference
on the Americas

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Inter-American Dialogue

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

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

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

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

Rising Confidence in Latin America

Latin America today is very different from Latin America of the past, as evidenced by its strong performance during the global economic crisis, another round of peaceful presidential elections, and the emergence of one of its members—Brazil—as a player on the international stage. Tucked among those changes is another important shift: Latin America’s relationship with the United States.

Deep engagement with Latin America by the Obama administration has not materialized as hoped. Instead, South America has cultivated stronger intra-regional alliances and more powerful ties with China. These changing alliances will not prevent regional economies from continuing their growth trajectory. However, experts assembled at the XIV Annual CAF Conference on the Americas said “benign neglect” by the United States represents a missed opportunity to collaborate on pressing issues, among them: energy, transnational crime networks, immigration, climate change, and trade.

CAF, the Inter-American Dialogue, and the Organization of American States organize the Conference on the Americas as a forum to identify issues affecting the region and to make policy recommendations. The more than 400 participants at the September 8 and 9, 2010, conference included US and Latin American government officials, international economists, lawmakers, policy analysts, journalists, and corporate and financial leaders. Among the panelists were two former presidents: Carlos Mesa of Bolivia and Martín Torrijos of Panama.

The sustained collaboration is designed to bring a detailed review of hemispheric affairs to Washington, DC, officials and opinion leaders. The 2010 conference sparked lively debate about a wide-ranging roster of issues, with the changing relationship with the United States surfacing repeatedly.

Deep engagement with Latin America by the Obama administration has not materialized as hoped.

“It’s not fair to say the US will disappear as a main actor.”

—*Luiz Felipe
Lampreia*

When Barack Obama moved into the White House, there was optimism about re-engagement with the United States, which had paid little attention to the region during the administrations of Bill Clinton and George W. Bush. That optimism was fueled by Obama’s call for cooperation at the Summit of the Americas in Trinidad and Tobago in 2009.

But the recession, political partisanship, and military actions in Iraq and Afghanistan monopolized the US government’s attention. Latin America, in tandem, turned its focus away from its northern neighbor, deepening ties with emerging global players, including China and India. With mixed results, Latin American countries also began to forge more collaborative relationships with one another, mostly around trade.

There was consensus that US relations with its southern neighbors have weakened but disagreement on the implications of that drift. It was suggested that ongoing concerns linked to drug and arms trafficking through the Americas would open at least one channel of dialogue. Past US attention often has been directed at urgent or crisis situations.

“It’s not fair to say the US will disappear as a main actor,” said **Luiz Felipe Lampreia**, foreign minister of Brazil under President Fernando Henrique Cardoso and now vice president of the Brazilian Center for International Relations (CEBRI). “It won’t be an absolute power, but it will still be a leading figure. It will still play a main role in climate change and push for cooperation in other areas.”

In particular, the United States’ continuing close relationship with Mexico and Central America was underscored. That tie remains strong through trade and, more recently, efforts to address rising crime, violence, and drug trafficking.

In a keynote address that drew a standing-room-only crowd, New Mexico governor **Bill Richardson** predicted that the growing number of Hispanics in the United States would help

shift US attention back to Latin America. Richardson, then the only US governor of Latin American descent, also called for comprehensive immigration reform, describing it as “the most important issue that Congress should address in the post-election session.”

Richardson said immigration should be approached as a foreign policy concern.

He also said more attention must be directed toward Latin America’s neglected populations—indigenous people, Afro-Latin Americans, migrant workers—and suggested that a new initiative along the lines of President John F. Kennedy’s Alliance for Progress could serve as “an act of hemispheric partnership that seriously addresses the issues.”

The conference was structured as a series of panel discussions with audience participation. Issues addressed included elections and political trends; the region’s economic and social challenges over the next decade; Latin America’s place in the global scenario; and challenges to democracy.

“Immigration is the most important issue that Congress should address in the post-election session.”
—Bill Richardson

Sustainable Economic Growth?

Exports from Latin America were expected to grow more than 21 percent in 2010 and trade, the driver of the region’s economies, was spotlighted as both a positive and a negative force.

Latin America may see trade with the United States increase behind the Obama administration’s call for US export growth. Economic recovery in Central America, which unlike South America was hard hit by the effects of the global recession, is expected to come on the strength of trade. **Francisco Sanchez**, US undersecretary of commerce for international trade, said the Obama administration was committed to free-trade accords with Panama and Colombia. He predicted they would be approved but gave no time frame.

The economic bounty from trade has come disproportionately from exports to China.

Still, hemispheric trade relationships need to broaden beyond trade accords. The ongoing US-Mexico effort to harmonize an exchange system for products and services, as well as the US-Brazil Commercial Dialogue, which is a forum for trade and investment that encourages innovation, were cited as examples.

While trade has helped carry much of Latin America through an unprecedented stretch of growth, that economic bounty has disproportionately come from South American exports to China. Central American exports consist principally of goods and services with little value-added. Conference participants questioned the long-term sustainability of these models in a world increasingly dependent on technology and knowledge-based industries.

“Countries of the Western Hemisphere are at an important juncture,” said **Arturo Valenzuela**, US assistant secretary of state for Western Hemisphere affairs. “If they don’t go beyond exports of raw materials... toward value-added goods and services, it is going to be difficult as they move in the 21st century.”

Francisco Sánchez called upon countries in the Americas to be “smarter” in thinking about ways to work together. “Take aerospace. Brazil has a very robust aviation industry,” he said. “Those airplanes have a lot of US content. So it’s a win-win for both countries.

“We have to look for more opportunities to have that kind of integration. It’s in all our interests as the world becomes increasingly competitive,” he added.

Economic and Social Challenges

The region has a tendency to compare its performance to Latin America of the past when it should compare itself to other areas of the world today. Conference participants questioned not only whether commodity exports were the right engine for economic growth but also whether the region was growing fast enough.

The UN Economic Commission for Latin America and the Caribbean (ECLAC) predicted that the region would close 2010 with GDP growth of about 5.2 percent.

“We are satisfied and happy when we say Latin America will grow again with an average growth rate of 4 or 5 percent,” said CAF president **Enrique García**. “But is that sufficient to be an important player in the world? Is that sufficient to close the gap between rich and poor in a sustainable manner? Is that sufficient to close the competitiveness gap with other parts of the world?”

Less dynamic expansion—below 4 percent—was expected for 2011 because of volatility in the global economy. Latin America, once known for its boom-and-bust cycles, has been able to maneuver the global financial crisis thanks to stronger monetary policies, lower interest rates, and increased credit supplies from individual countries’ central banks.

Still, growth is not evenly distributed. ECLAC figures showed Brazil leading the region, with expected 7.6 percent GDP growth in 2010, followed by Paraguay and Uruguay at around 7 percent and Argentina and Peru at 6.8 percent and 6.7 percent, respectively. By contrast, the countries of Central America are expected to see growth of only about 2 percent—the same as the average for industrialized countries globally.

As it focuses on medium-term growth, Latin America no longer worries so much about inflation, short-term economic solutions, or fiscal accounts. However, it still faces challenges.

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The science and technology gap that separates Latin America from the United States and Europe is widening.

Latin Americans do not save enough. Productivity growth in the region is too low, particularly when compared with the vibrant growth rate of Asia. The education systems are poor. Skilled jobs are not being created, and informal employment levels remain excessive. The science and technology gap that separates Latin America from the United States and Europe is widening.

Also, investment in the region is inadequate. One result is that infrastructure needs are not being met, especially in rural areas. Overarching this is the region's failure to embrace long-term planning. Countries' development plans traditionally run only as long as an election cycle.

Furthermore, while Latin America has made dramatic inroads in reducing poverty, the safety nets used—disproportionately conditional cash transfers—are not designed as long-term solutions. In the 1990s, poverty-reduction initiatives saw results, and the poverty rate for the region dropped to 44 percent, from 50 percent. Additional programs and progressive social policies have since brought those rates down another 11 percent. However, even as the region has posted tremendous success in lifting people out of poverty, millions of residents remain excluded from the benefits of economic development.

As the lower class shrinks, the middle class has grown—dramatically. In Brazil, an estimated 52 percent of the population is now in the middle class. A base for stability and progress in other parts of the world, the middle class in Latin America cannot play that role effectively without greater inclusion. Conference participants said political participation by the middle class is too low. The education systems are inadequate. And job creation is too slow, leaving many middle class residents still laboring in the informal sector.

Security, Drugs, and Transnational Crime Networks

When polled, Latin Americans identify the rising levels and magnitude of crime and violence as their top concern. The power of drug cartels in Mexico and the prevalence of gang violence in Central America, in particular, sparked serious discussion of how the complicated issue is to be addressed. It was underscored as an area where the United States is engaged with the region.

The United States was singled out for criticism for failing to stop the flow of illegal guns into Latin America, but conference participants noted that US demand for cocaine is declining at the same time Europe and Africa's thirst for the drug is on the rise. The UN's *World Drug Report 2010* reported increases in cocaine use in West Africa, an area it identified as a major new transshipment point for drugs from the Andes.

Gil Kerlikowske, director of the White House Office of National Drug Control Policy—the man dubbed the US drug czar—said the Obama administration favors comprehensive prevention-based strategies as well as initiatives to strengthen law enforcement in the region. He acknowledged that traffickers are creating far-flung networks, infiltrating political systems (including the national legislatures in some countries), and co-opting police agencies.

US funding similar to the Mérida Initiative for Mexico may be considered for Guatemala and Honduras, he said.

Still, the root problems linked to growing violence—including poverty, social exclusion, and joblessness, especially for young Latin Americans—must be addressed in tandem with law enforcement strategies, experts said. *Mano dura* is not an inadequate approach to the problem.

“The global drug issue is extraordinarily complex. It doesn't lend itself to bumper-sticker solutions,” said Kerlikowske,

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referring to the United States' 40-year "War on Drugs." He said the international crime networks are not limited to narcotics trafficking, although he urged caution about speculation that a recent car bombing, detonated by technology similar to that used in terrorist attacks, signaled the presence of Middle East insurgents in the region.

"This region, which has not had a war in 90 years, has one of the highest rates of violent deaths in the world."

—José Miguel Insulza

Consolidation of Democracy

Free elections have become commonplace in Latin America, political transitions are no longer marked by violence, and military coups seem a thing of the past. But that does not necessarily mean democracies are safely ensconced.

"In our region, there is no definitive concept of democracy," said **José Miguel Insulza**, secretary general of the OAS. In a panel discussion with former Panamanian president Torrijos and former Bolivian president Mesa, Insulza said high levels of inequality and criminality pose serious challenges to democratic institutions.

"This region, which has not had a war in 90 years, has one of the highest rates of violent deaths in the world," he noted.

Latin American politics in recent years has been marked by growing *caudillismo*. Strengthened executive branches of government—often through constitutional reforms—have become more commonplace while political parties sometimes serve as little more than vehicles for individual political ambitions.

Still, peaceful elections continue to mark most of the region. A panel on political trends, moderated by Inter-American Dialogue president **Michael Shifter**, noted that recent elections were marked by continuity. Chile was not likely to see broad swings in economic or social policies under the new administration of President Sebastián Piñera. Likewise, the election of Juan Manuel Santos as president of Colombia was expected

to keep the country on a path close to that of his predecessor, Álvaro Uribe.

Legislative elections in Venezuela were characterized as a bellwether regarding the odds that the opposition would gain enough ground to affect Hugo Chávez's ability to win yet another presidential mandate. Changes in the system for apportioning legislative seats in Venezuela could also result in parties being seated with lower numbers of votes than in the past.

Brazil's presidential elections in October were expected to keep the incumbent Workers Party in power, likely putting a woman in the chief executive's office for the first time. Ruling party presidential hopeful Dilma Rousseff was President Luiz Inácio Lula da Silva's cabinet chief before resigning to run for office.

The ongoing popularity of Brazil's president, its effective fiscal policies, and its emergence as Latin America's most powerful economy sparked debate over Brazil's potential as a rising actor on the international stage. Like China, Brazil has become an increasingly influential emerging market. It has a strong voice in the G20 and an array of global interests, both economic and political. Its mediation efforts to persuade Iran to sign a deal on enriching uranium early in 2010 was seen as an attempt to wield influence beyond South America. US government representatives at the conference said Brazil's position as an innovator in the energy sector, particularly with bio-fuels, has the United States paying attention.

Even as some participants said Brazil may be poised for a greater global role, they stressed that the region's overall influence—politically and economically—would remain marginal.

Elsewhere during the discussions, participants predicted that the United States would soften its position on Cuba, initially through loosened current travel restrictions.

The region has progressed dramatically in the last decade—politically, socially, and economically—but it has not forged

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a formula to ensure that those advances are long-term or sustainable. Democracies remain in place, but they are challenged by new threats, including infiltration by criminal networks. Economies are growing but they are based on old-fashioned models, mostly dependent upon commodity exports. And Latin America remains marked by too much poverty and inequality.

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

September 8 and 9, 2010

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

Agenda

WEDNESDAY, SEPTEMBER 8

Session I. Conference Introductory Remarks

Enrique García, President, CAF

Jose Miguel Insulza, Secretary General, Organization of American States

Michael Shifter, President, Inter-American Dialogue

Special Session:

Address by The Honorable Bill Richardson, Governor of New Mexico

Session II. The Evolution of US Policy toward Latin America

Moderator: **Carla A. Hills**, Hills & Company

Lead-off Speakers:

Arturo Valenzuela, US Assistant Secretary of State

Francisco Sanchez, Undersecretary of Commerce for International Trade

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

Session III. Elections and Political Trends

Moderator: **Michael Shifter**, Inter-American Dialogue

Lead-off Speakers:

Paulo Sotero, Woodrow Wilson International Center for Scholars

Patricio Navia, New York University (Chile)

Ana María Sanjuan, Universidad Central de Venezuela (Venezuela)

Mauricio Vargas, Former Director of *Semana* and *Cambio* (Colombia)

THURSDAY, SEPTEMBER 9

Session IV. The Future of Latin America: Economic and Social Challenges over the Next 10 Years

Moderator: **Enrique García**, CAF

Lead-off Speakers:

Alicia Bárcena, Executive Secretary, UN-ECLAC

Santiago Levy, Vice President, Inter-American Development Bank

Guillermo Perry, Former Finance Minister of Colombia

Harinder Kohli, President and CEO, Centennial Group

Session V. Latin America's Role in the Global Scenario

Moderator: **María Emma Mejía**, Former Foreign Minister of Colombia

Lead-off Speakers:

Luiz Felipe Lampreia, Former Foreign Minister of Brazil

Francisco Carrión, Ambassador of Ecuador to the UN

Sergio Abreu, Senator, Uruguay

Alfredo Barnechea, Political Analyst and Writer, Peru

Working Lunch: Challenges for Democracy in Latin America

Moderator: **Carlos Mesa**, Former President of Bolivia

Keynote Speakers:

Martín Torrijos, Former President of Panama

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

XIV ANNUAL CAF CONFERENCE ON THE AMERICAS

September 8 and 9, 2010 • Washington, DC

Profiles of Speakers

Sergio Abreu is a senator with the National Party of Uruguay. He served as minister of foreign affairs, minister of industry, energy and mining, and vice-president of the United Nations General Assembly.

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

Alfredo Barnechea is a Peruvian political analyst and writer. He has worked previously at the Inter-American Development Bank.

Francisco Carrión is the permanent representative of Ecuador to the United Nations. He served as minister of foreign affairs, ambassador of Ecuador to Spain, and under secretary of foreign affairs.

Enrique García is president of CAF, an international development bank based in Caracas. He was Bolivia's minister of planning and coordination and head of the economic and social cabinet. He has also served as treasurer of the Inter-American Development Bank.

Carla A. Hills served as US trade representative in the George H.W. Bush administration and as secretary of housing and urban development in the Ford administration. She is currently chair and CEO of Hills & Company, an international consulting firm.

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

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

Harinder Kohli is a founding director and chief executive officer of the Centennial Group International and the Emerging Markets Forum.

Luiz Felipe Lampreia is vice president of the Brazilian Center for International Relations (CEBRI). He served as foreign minister of Brazil from 1995 to 2001 under President Fernando Henrique Cardoso. He was also ambassador to Suriname, Lisbon, and Geneva, as well as to the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO).

Santiago Levy is a Mexican economist. He is vice president for sector and knowledge at the Inter-American Development Bank, where he previously served as general manager and chief economist.

Maria Emma Mejía is president of Fundación Pies Descalzos in Colombia. She has served Colombia as minister of education, minister of foreign affairs, and ambassador to Spain. She has been a negotiator in the peace process with the FARC, and a vice-presidential candidate in 1998.

Carlos D. Mesa was president of Bolivia from 2003 to 2005. Before entering politics, Mesa was a historian and a print and broadcast journalist.

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

Patricio Navia is an adjunct assistant professor at the Center for Latin American and Caribbean Studies of New York University and an associate professor at the Social Sciences Faculty of the Diego Portales University in Chile. Navia is founding director of the Observatorio Electoral.

Guillermo Perry is a visiting professor at Harvard University, research associate at Fedesarrollo in Colombia, and a non-resident fellow at the Center for Global Development. He was minister of finance and public credit, minister of mining and energy and director of national taxes of Colombia.

Bill Richardson is governor of the state of New Mexico. He served as the US secretary of energy—the highest ranking Hispanic in the Clinton administration—also as US ambassador to the United Nations. Before that, he was elected eight times to represent New Mexico’s 3rd Congressional District in the US House of Representatives.

Francisco Sanchez is under secretary of commerce for international trade. He served as senior policy advisor to President Obama during the 2008 presidential campaign and chairman of the National Hispanic Leadership Council. During the Clinton administration he served as assistant secretary of transportation for aviation and international affairs.

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

Michael Shifter is president of the Inter-American Dialogue.

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

Ginger Thompson is a reporter with the *New York Times* and for nearly 15 years she served as its Mexico bureau chief. Earlier, she was co-author of an award-winning 1995 series for *The Baltimore Sun* on the US-backed Honduran death squad, Battalion 3-16.

Martín Torrijos was president of Panama from 2004 to 2009.

Arturo Valenzuela is assistant secretary of state for Western Hemisphere affairs. He was previously director of the Center for Latin American Studies at Georgetown University and served in the Clinton administration as special assistant to the president and senior director for inter-American affairs of the National Security Council and as deputy assistant secretary of state for inter-American affairs.

Mauricio Vargas is a Colombian journalist and writer. He has been editor-in-chief of *Semana* and *Cambio* magazines. He served as counselor to President César Gaviria, and minister of communications.

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