

THE BROOKINGS INSTITUTION

A CONVERSATION ON THE FUTURE OF CENTRAL AMERICA:
THE CHALLENGES OF INSECURITY AND TRADE

Washington, D.C.
Friday, May 20, 2011

PARTICIPANTS:

Welcome Remarks and Introduction:

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Initiative
The Brookings Institution

NICK RISCHBIETH
President
Central American Bank for Economic Integration

PANEL 1: THE CHALLENGES OF CITIZEN INSECURITY AND ORGANIZED CRIME IN CENTRAL
AMERICA:

Moderator:

DIANA NEGROPONTE
Nonresident Senior Fellow
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Panelists:

BRIAN NICHOLS
U.S. Deputy Assistant Secretary of State for
the Bureau of International Narcotics and
Law Enforcement Affairs
U.S. Department of State

KEVIN CASAS-ZAMORA
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The Brookings Institution

CARLOS CASTRESANA
Attorney General of the Supreme Court of Spain
Former Head of the UN International Commission
Against Impunity in Guatemala

PANEL 2: CENTRAL AMERICA'S TRADE AGENDA:

Moderator:

RICHARD FEINEBERG
Nonresident Senior Fellow, The Brookings
Institution
Professor, University of California San Diego

Panelists:

DAVID E. LEWIS
Vice President
Manchester Trade

ANABEL GONZALEZ
Minister of Trade
Republic of Costa Rica

ROBERTO ARTAVIA
Professor
INCAE Business School

MIRIAM SAPIRO
Deputy U.S. Trade Representative
Office of the United States Trade Representative

Keynote Address:

STROBE TALBOTT, Introduction
President
The Brookings Institution

LAURA CHINCHILLA
President
Republic of Costa Rica

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P R O C E E D I N G S

MR. CARDENAS: All right, well, good morning, everyone. I am Mauricio Cardenas, a senior fellow and director of the Latin America Initiative here at the Brookings Institution. It is a real great pleasure to welcome you all to this event, which we have entitled "A Conversation on the Future of Central America: The Challenges of Insecurity and Trade."

Central America is a topic that is gathering more and more attention in this city. Last Wednesday, we convened here at Brookings a group of six former presidents from Latin America to talk about the future of this hemisphere, and Central America was a key player in that conversation, and it's emerging again today.

We had dinner that night with the secretary of state, and the topic of Central America emerged again. So, with this, I just highlight the point that there is an understanding that there are challenges in Central America: economic, security, and political challenges. We need to gain more insight and more understanding not just on the causes and the roots of those problems, but on the solutions, and the purpose of these conversations is precisely that; to help us understand and help us design better policies to deal with these challenges and overcome current problems.

For this purpose, we have a group of panelists. I'm going to leave it to Diana Negroponte, who will introduce the participants of this panel. But before I hand it to her, we're going to do two things. One is to acknowledge a great partner that we now have in our work in Central America. We hope that we are able with this event and future initiatives to forge a partnership with the Central American Bank of Economic Integration. We've done that in the past with other of the regional organizations, particularly with CAFTA, that covers mostly the South American countries, and I think these regional

players are key allies in this idea of promoting the debate the conversation about the key topics in our region.

And we have the great privilege of having today with us the president of the Central American Economic Integration Bank, who is Dr. Nick Rischbieth. He's a long member of the bank. He's been there for almost 15 years now. Now as president, but before as vice president. He has a PhD in finance from the University of Hamburg in Germany. He has a MBA, also, from Washington University in St. Louis. A key friend of this house, by the way. Washington University was founded by the same person who founded Brookings. So, we have a great connection.

I'm going to turn the floor over to him for his initial remarks, and then we'll go into the first panel. I sincerely hope you stay for the entire event, which will end with a closing lecture by President Laura Chinchilla of Costa Rica. We're also delighted that she's going to be with us. And I think this will allow us to really take advantage of a person who knows this region very well and has already shown in the first year in government tremendous leadership not just in her own country, but in the entire region as a whole.

Let me finish this also by saying that this is all the great work of a great colleague and a great friend, Kevin Casa-Zamora, who's a senior fellow here at the Brookings Institution, a Costa Rican national, former vice president of Costa Rica, who took the initiative and has taken the leadership of putting all these programs together, and not just to this event, but our entire work on Central America has been benefited tremendously from his views and his leadership. So, thanks, Kevin, for your hard work on this account so, with that, I'll turn it to you, Nick, for your initial remarks.

DR. RISCHBIETH: Good morning, ladies and gentlemen. Thank you, Mauricio, for those kind words. Ladies and gentlemen, Central American Bank for Economic Integration, CABEI, the financial arm of the Central America integration process, is very pleased to be organizing this event together with such a prestigious entity such as Brookings Institution. We hope that today's event marks the birth of an alliance between both our institutions. We further our hope that this event contributes to firmly place Central America on the agenda of Washington political and diplomatic circles, thereby fostering studies and research that will contribute to the formulation of policies aimed at our countries. Undoubtedly by doing so, we will highlight the role that integration organizations in general and CABEI in particular, can play in particular consolidating integration and economic and social development in this sub region.

Today's event held to coincide with a visit of Costa Rica's president, Ms. Laura Chinchilla, seeks to commence this cooperation by addressing two highly-relevant topics for Central America.

The first is the trade agenda, a critical variable for the successful performance of the Central American countries and their economies. As you well know, DR-CAFTA was formally adopted five years ago by several countries in the region, a short time thereafter by the Dominican Republic, and finally by Costa Rica. To this day, it still is the most debated and controversial free trade agreement ever signed by Central America. As soon as the United States of America announced her willingness to sign the FTA, protracted discussions started in all and each of the different countries. Two camps soon emerged: all the apologists on the one hand for the FTA and their staunch opponents. In the case of Costa Rica, it was even necessary to call for a popular referendum in order to obtain its approval.

What is now clear five years later, after its formal adoption is that the DR-CAFTA was neither an economic miracle that would fuel the take-ups of Central America as its proponents were envisioning, nor the nightmare that would cause the collapse of our economies, as the most zealous adversaries were forecasting. DR-CAFTA has born fruits. However, the results have not yielded a bountiful crop. On the one hand, Central American countries have not managed to implement the complimentary agendas that would have permitted the optimization of the free trade agreement. On the other hand, the international economic crisis has not allowed us to measure and quantify the benefits of the implementation of the free trade agreement.

Soon after its formal adoption, a recession struck the U.S. and engulfed the world. The former, by far, the region's leading trading partner. U.S. imports contracted considerably, undoubtedly impacting severely on the opportunity for expansion the Central American exports. In this respect, it could be said that although we have an FTA that has been fully implemented, it is still to a certain point not fully effective. Not fully effective because Central America proceeded to negotiate additional trade agreements, thereby neglecting the profound reform of its institutions and policies to optimize the advantages of a DR-CAFTA agreement. Not fully effective because U.S. imports were substantially reduced at a moment in time when supposedly Central America would have profited substantially from this preferential trade relation.

The second topic is also very relevant. Challenges to citizen security and organized crime in Central America. The civil wars have for several decades have effected what Guatemala, El Salvador, and Nicaragua have ended, but they have been replaced by citizen insecurity, particularly in Guatemala, El Salvador, and Honduras. To a lesser extent, they have also affected other countries, such as Belize, Nicaragua, Panama, and even Costa Rica. The homicide rate, the variable criminologists usually

have employed to determine the degree of relevant insecurity of a country because of its rather accurate measurement has risen dramatically in the first three countries, but has also increased in the others, including the peaceful Costa Rica.

Once again, this is a reflection of the international situation, but must also be seen within the context of the internal weaknesses of the region. The aggressive and effective fight against drug trafficking in Colombia and the ongoing efforts to combat this plague in Mexico has driven the cartels into the Central American region. An additional twist has been the in-kind payment to local drug dealers and the proliferation of criminal gangs that migrated from the United States.

The institutional weaknesses of the region as it refers to both law enforcement agencies and the judiciary system together with individual mistakes, such as the precipitated demobilization of armies in several countries has allowed drug traffickers to practically take over certain territories.

An initiative worth highlighting is the recent approval of the Central American security strategy, which evidences the concerted commitment of the individual governments to face the challenge on a regional basis. The prospects for this initiative, however, will depend on the continuous dialogue and cooperation with extra regional countries, such as the United States of America, the European Union, and other Mesoamerica countries.

I hereby would like to express today's satisfaction that these topics will be addressed in this morning's forum of highly-distinguished speakers. We consider these to be utmost relevance for both the pursuit of economic and social development and the integration of Central America, both of which are reflected in CABEI's original mandate and furthermore set out forth in the bank's charter that dates back to 1960, the year we were founded.

Thank you very much. (Applause)

MS. NEGROPONTE: President Rischbieth of CABEI, thank you for your sponsorship and for joining us at Brookings and presenting a morning on topics which we believe are of critical importance to us in the United States.

I didn't know how many of you followed the news of Guatemala this week. We have many experts, wonderfully knowledgeable people in this room. But 25 people were beheaded and 2 murdered in a ranch in the Peten, that northeastern part of Guatemala. One woman escaped to tell the story, but massacres and bestiality of this kind so near to us and affecting those Guatemalans and other citizens who live here mean that the problems of Central America are not just Central American; they're part of our problems, too.

We're going to start off this morning with a panel which is expert in the area of public security or insecurity, the strengthening of the rule of law, and the U.S. response to it. Kevin Casas has been bringing to and enriching Brookings' study on Central America since he joined us two-and-a-half years ago, and we are very grateful that a vice president of Costa Rica would come and share relatively squalid rooms after the palaces in San Jose. (Laughter) He also drives himself to work.

MR. CASAS: You'd be surprised.

MS. NEGROPONTE: Carlos Castresana was the first director of the Commission on Examination of Crime in Guatemala, known I think by all of us here with the Spanish acronym CICIG.

JUDGE CASTRESANA: Yes.

And on my left is Brian Nichols, who has taken on the role as the deputy assistant secretary in the Bureau of International Narcotics and Law Enforcement at the Department of State, and you can make the acronym up for that. I know it as INL.

These gentlemen are going to speak for about 15 minutes each, which after which I want to open it up to a discussion because we have the first director of the Central America Regional Security Initiative in our audience, the ambassador of Guatemala, representatives from the Embassy of Honduras, Nicaragua, Costa Rica. You know as much in the certain cases as the people on the panel, and we could have a really useful discussion. We will end with closing statements from our panelists.

Kevin, can I ask you to begin?

MR. CASAS-ZAMORA: You may. Thank you very much, Diana, and thank you all for being here. It's a real honor for me, I have to say, to share the floor with such distinguished speakers. And it's great that we have this turnout for an event on Central America. I suspect that part of that turnout has to do, sadly, with some of the bad news that are coming from the region. Hopefully, when we talk about trade issues later on, more good news will come our way.

When President Obama signed last September the list of countries with very significant drug-trafficking and drug-trafficking problems, five out of the six Central American countries made the cut. That's a very tangible sign that the security situation in Central America has reached the level of crisis. And it's a crisis that really puts at risk the very significant achievements that the region has made over the past two decades. There's a region that made a very remarkable decision to put an end to civil wars that were truly destroying their societies. And not just that, but it is a region that has made very significant strides, including in place a perfect but reasonably good democratic systems. All that is at risk now.

And what is happening in Central America when it comes to violence is really a tragedy of biblical proportions. Just to give you a couple of figures, over the past decade or so, about 125,000 people have perished in Central America as a direct result

of crime. If you worked out the numbers, this is not only more people than were dying at the height of the civil wars, but if you make the conversion, it is as though about 1.2 million Americans have perished over the past decade as a result of crime. So, this is truly extraordinary.

And I'll give you another figure, which I find remarkable as much as it is terrifying. Just a couple of years ago, Guatemala, Honduras, and El Salvador, each of them have more homicides than the 27 countries of the European Union combined. So, at this point, it has become clear that particularly the northern half of Central America is by some margin the most violent region in the world outside of active warzones.

The roots of this violence that seems to be spinning out of control are very, very complex, but one can at least mention two or three contributing factors that are very clear and very obvious.

An obvious factor is that a drug-trafficking tsunami has befallen the region. Just to give you a number, cocaine confiscations have multiplied by a factor of six over the past decades in Central America. Over the past four years, the region has confiscated three times as much cocaine as Mexico. And whereas in 2005, 2006, about a quarter, about one-fourth of the cocaine that was traveling north towards the U.S. was going through Central America. The figure is now closer to 70 percent. So, this is not just a very bad situation, but it's a situation that is getting worse at an alarming rate.

But the penetration of organized crime and of drug-trafficking in Central America merely reflects as much as compounds two very structural issues that in some ways were mentioned by President Rischbieth in his words.

One of them is the marginalization of a significant proportion of the Central American youth. Twenty-five percent of young people in Central America are

neither at school nor at work. This is a huge time bomb for the region and it is a reserve army for crime syndicates and youth gangs.

And the problems of law enforcement, the terrible weakness of law enforcement institutions in Central America is arguably worse. Law enforcement institutions, police institutions, and the judiciaries in the region are terribly under-trained, under-equipped, and prone to very severe corruption. Not surprisingly, the levels of trust that they elicit from the Central American population are very low, and this has very concrete consequences for this discussion.

One obvious consequence is that when people don't trust law enforcement institutions, they don't report crime. Just to give you a figure, even in Costa Rica, less than one-fourth of crimes are actually reported to the authorities. And there can only be one result out of this, which is impunity. Pervasive impunity.

So, in a way, one of the crucial factors that is behind this violence that Central America is experiencing is very easy to identify. Law enforcement institutions in Central America are not merely ineffective to deal with crime; in actual fact, they compound the problem.

The consequences of this are several, and I'm just going to mention some. And that is even if we go beyond the obvious human consequences, I mean, the human consequences are staggering. I mean, half of the people that are dying as a direct result of violence in Central America are young men between 15 and 29-years-old, at the peak of their productive and reproductive lives. Actually, if you work out the numbers of the homicide rate in this particular group of a population, they approach the homicide rates that would define a situation of genocide. I mean, that's how bad it is.

But beyond that human consequences, there are economic consequences. The best estimation, this is, of course, an inexact science, but the best

estimation of the direct and indirect cost of violence in Central America approach 8, 9 percent of GDP, which is a huge deadweight for any region, particularly a region as vulnerable and as poor as Central America.

But there are also, and I would like to emphasize, there's the political consequences. You would be hard-pressed to identify outside Costa Rica a very democratic culture with deep roots in Central America. So, this kind of problem plays into a set of authoritarian attitudes that are very entrenched in the region. And the risk of this, rather than merely an authoritarian reversal as a result of the fear of crime, which I would say that it's a distant prospect, the real problem is that there's a cavalier attitude towards the rule of law. There's the real danger that basic civil liberties and basic principles of the rule of law will be hollowed out in Central America. And there's also the risk, and this has become very visible throughout the region, that there are places in Central America where the state monopoly over legitimate coercion is no longer assured. And this is happening in different ways. I mean, one way in which this is happening is the pervasive privatization of public security. The proliferation of private security throughout the region often would scant regulation. But there's also the role of organized crime. I mean, there are parts of Central America, and not just in Central America, this is happening in the Favelas, in Rio, in other places in Latin America, where drug-trafficking organizations are the law of the land really, and they provide public services and they really run the show.

And when one talks about this, it is inevitable to make reference to the situation in Guatemala. Guatemala has long played a crucial role in the drought followed by narcotics of the way north. Not just cocaine from South America, but also increasingly methamphetamines from India and Bangladesh. And for this to happen, the country has a set of features that make it very vulnerable. It is about geography, but it's also about

institutional makeup, and I want to emphasize here one point. The Guatemalan state is an extremely weak state by almost any indicator. Particularly tax revenue, and I'll come back to this at some point.

And, so, the end result of this is that even though we don't know the exact figures, it is very clear that a very significant proportion of the Guatemalan territory is outside the effective control of the state. And it's very clear that what's happening in Mexico has driven drug-trafficking organizations to expand their operations south of the Mexican border.

What needs to be done? It is fairly clear that Central America needs more than coercion. It really demands a comprehensive approach that gives priority to reforming corrupt and very ineffective law enforcement institutions, that give priority to introducing modern technology and information systems as part of the policy-making process when it comes to security that gives priority to bolstering social ties in organization of communities and that, above all, gives priority to investing a lot more in education, health, housing, and opportunities for young people.

And there's nothing new about this. This is, in essence, what the successful cases of crime reduction in Latin America have done in places like Bogota and Sao Paulo. So, if you want to put it in a sound bite, this is about balancing zero tolerance for crime with zero tolerance for social exclusion.

But in order to make this happen, the policy interventions needed are very complex and very expensive, and I think there's a very clear case as to why the U.S. could and should help, and the U.S. is helping. I mean, there is the Central American Regional Security Initiative, which is a very well-conceived project of assistance to the region in its fight against organized crime, but the crucial point, and I would like to emphasize this, that we have to understand is that given the task at hand, given that the

real challenge is how to rebuild law enforcement institutions almost from scratch and how to improve the opportunities for young people, it is really up to the Central Americans. I mean, these are challenges that the Central Americans themselves have to solve. The U.S. cannot do it for us. And this implies, amongst other things, that tax systems in the region must be reformed if we want Central American states to have effective control over their territory.

Tax revenues as a proportion of GDP are about 16 percent in Central America. That's lower than for Latin America as a whole. That's lower than for Sub-Saharan Africa. So, nobody can be really surprised that Guatemala is having problems in controlling effectively its territory when it's a state that collects 10 percent of GDP in taxes. That's a state that doesn't go beyond the --

What can the U.S. do? And with this, I finish. Several things. Number one, I think there's a case for scaling up CARSI. CARSI has dispersed or has allocated actually, dispersed is a different matter --

MS. NEGROPONTE: Kevin, just explain the acronym for our audience.

MR. CARDENAS: The Central American Regional Security Initiative.

MS. NEGROPONTE: Thank you.

MR. CASAS-ZAMORA: Known as CARSI. CARSI has allocated about \$250 million over the past 4 years to Central America. That's about one-fifth of the counternarcotics assistance that Mexico has received. That's an indefensible disproportion.

So, it can be scaled up. However, it's very important from my perspective that CARSI's funds are not spread thin in myriad projects, that CARSI focuses on a few programs with catalytic effect. The creation of vetted units that are able to handle multinational investigations. The use, the adoption of modern information

technologies, the strengthening of prosecutorial capacities when it comes to money laundering, that's the kind of thing that needs to be done badly.

And I would say something else, and this is crucial. Any increase in U.S. counternarcotics assistance to the region should be done in a way that forces Central American countries to come up with money and put it on the table. There should be a mechanism of matching funds. The U.S. should not let Central American elites off the hook on this one.

Second thing, and a very concrete one, the U.S. should support CICIG, Guatemala's impunity commission. I'm not going to go into details of this, but they are running out of funds, literally. Their funding is running out in September, and whatever limitations CICIG might have, I think there's a very strong record, and Judge Castresana can give us more details about this. And the bottom line is that CICIG is a vetted unit and a good one at that, in a country where the penetration, the capture of law enforcement institutions is rampant. So, it would be a tragedy if the U.S. and the international community let CICIG fall through.

Number three, and this was mentioned, the U.S. should partner with Mexico and Colombia, that are crucial actors in this story. They should be brought in this picture, and they actually have developed in their own right very significant capacities when it comes to fighting organized crime that would be useful for their far weaker Central American neighbors.

Finally, last but not least, the U.S. should rethink its counternarcotics policies, and, I mean, this is a very complex discussion. I'm just going to mention it. I mean, Central America needs more than economic assistance from the U.S. In its current shape, the war on drugs is a failed endeavor, and we all know that. So, it would be terrific if the U.S. started having a conversation about counternarcotics policies and

started paying attention to alternative approaches to counternarcotics. And this is not code for legalization; this is simply a passionate call to look at the international evidence available in a dispassionate way. The price that not just Central America, Latin America as a whole is paying for the current approach to drug-trafficking is colossal. It's colossal in terms of violence, it's colossal in terms of corruption, and it's colossal in terms of the erosion of the work ethics of an entire generation. So, this is something in which the fate of Central America can and should be affected by decisions made in Washington.

So, anyway, and with this, I close. It would be great if Washington started paying if not intense attention, at least steady attention to Central America. Given the fact that it is a region that is showing disturbing signs of political instability, that is very close to the U.S. geographically and historically, and that has sent 3 million people to the shores of this country, doing so, I think, on the part of the U.S., would not be anything else than enlightened self-interest. Thank you. (Applause)

MS. NEGROPONTE: Kevin, the fact that you are a Central American citizen gives enormous credibility to what you have shared. I don't think a U.S. citizen could have made a presentation that you have just done.

MR. CASAS-ZAMORA: Thank you.

MS. NEGROPONTE: So, I thank you very much for your passion and commitment.

We're now going to move on to Judge Castresana, whose Spanish accent should not bely the fact that he is a UN employee who designed and founded the *Comision Internacional Contra la Impunidad en Guatemala*, CICIG, who would come to Washington with the equal passion that Kevin has to raise the funds for CICIG for its two years and its extension for a further two years, but who is now spending a well-earned sabbatical in Stockholm, I hope thinking and writing about the work of CICIG and

considering where it might be improved and whether it is the right instrument to extend to other countries in Central America.

Carlos?

JUDGE CASTRESANA: Thank you very much. Well, thanks for this wonderful presentation and thanks to Brookings Institution for the opportunity to discuss, to think together about the situation of security and justice in Central America and the influence of organized crime.

I could not agree more with the position of Kevin. I think he understands perfectly the region, understands the problem, and proposes the measures to be taken. Organized crime is a global challenge for democratic societies, for the international community, for the United Nations, is obviously a Latin American problem, but this right now today, a Central America problem. So, the battle of organized crime against society is now being fought in Central America. It was a critical situation in Colombia many years ago, it is a critical situation in Mexico, but Mexico has made progresses, but it is a complete acting situation right now in Central America.

So, let me go to the problem, what we found in Guatemala when we right there without too much knowledge of their situation of the country, sent there to build the rule of law, basically, but if the situation is similar in all the region, it is very similar, extremely similar in the triangle of the Northern Central America.

So, Honduras, Guatemala, and El Salvador. For the criminal groups, there are not borders in this triangle. So, for the Maras(speaking in Spanish) for the juvenile (inaudible) gangs who is a juvenile army of around 25,000 potential murderers, there is not a border, there is not any difference between Tegucigalpa(inaudible) or Guatemala city or El Salvador. So, we should understand this.

And even if Honduras had not an armed conflict, El Salvador and Guatemala had, Honduras was involved in the conflict in Nicaragua, so all the region is the same, and what happened after more than three decades of armed conflict, wars in the 90s, there were disagreements. And I think that the signatories of those peace agreements were genuinely persuaded to put an end to hostilities, but in my view after three years there, I have a very clear idea, one thing is to make peace and a very different thing to build peace. To build peace, you need to address the causes and the consequences on the conflict, take the lessons, and build a new country. A democratic one, putting an end to extreme inequality, to elites not paying taxes, to giving the instruments of development, education, housing, and everything, and you need, obviously, to address the consequences of the armed conflict. You need to bring justice, you need to give reparations, and even if the consecutive governments after the peace agreement had the will, they could not. And the consequence 15 years after the armed conflict is that they are still in a conflict, maybe not an armed one in the sense of the Geneva Conventions, but a very armed one and very war oriented in many other different ways.

Today, in Guatemala, they double number of people that doing the conflict. In the first presidency of the peace, President Arzu, 12,000 people were killed. In the current presidency, President Colom, will end probably with more than 25,000 people violently died. What is the reason? Basically because those societies are playing the game without periphery. So, it is obvious that if there is not an institution in order to solve peacefully, legally the conflicts, the conflicts will always end in violence, in confrontation.

So, this is what is happening. The terrible consequence of the armed conflicts was just formal democracies, but with nonfunctional, non-operational security

and justice institutions. So, justice doesn't work, police is not reliable, prosecuting offices are not able to build cases that you can sustain before a court of justice. This is what we found. And this is not an accident. During the armed conflict where factual powers involved in a lot of violence, they were interested in enjoying impunity after the return of democracy. So, they infiltrate the institutions, and in that moment, it was part of the counterinsurgent. Therefore, in the armed conflict, but 15 years later, they become naturally common criminality and then organize it criminality.

So, you cannot think of Guatemala, Honduras, or El Salvador as failed states because they are functional. They functional very well for many different purposes. They have wonderful universities, hospitals, ports, airports, they have all the financial services. What they have not is justice, and then these transform those countries in heaven crime. You can go there, you can establish there, you can make businesses, and you will always be safe because nobody will ever prosecute you. And if someone tries, you can always bribe the judge or the prosecutor or kill because there are not consequences. So, we are thinking in countries where 98 percent of murderers go unpunished.

So, what can we do? It is not a question of failed states. I say it is a question of absent states because between citizens and criminals, there is nothing. In countries with rule of law in what we can call in deep democracy, there are authorities between criminals and citizens, and those authorities, better or worse, protect citizens from criminal activities. This is what is not functioning in countries like Guatemala, in the Central American region. So, what we did in CICIG, what should be done in all the region.

First, I think we were all the time insistent in this, Guatemala, Honduras, El Salvador, all the region, probably in many ways to a global level, but let's go to the

region. They need a criminal policy. They need a plan, a roadmap, a long-term consensus agreement of building this wall between citizens and criminal organizations. So, they need a model of national police, they need a reliable prosecution office, they need independent, impartial, and strong judiciary.

But what's the problem? The problem is that there is a paradigm that has changed, and nobody seems to have understood. In the 90s, 80s, 70s, the most important violator of human rights were the states, but this paradigm has changed completely. Today, the violator of human rights are not state actors, are the gangs, are the criminal groups, are those who traffic with human beings, drugs, arms, ammunition, who lend them the money, those are the enemies. And the problem is that the legal systems are not only unfunded and not prepared and are not reliable, the problem is that the legal system, even the legal system, so the constitution, must be changed because the constitution of Guatemala was written in the 80s with the idea of protecting citizens from the state. But, today, the problem is that the state must protect citizens from criminals, not state groups, and have not the legal dues. Because according to the Guatemala Constitution, an arrest cannot be longer than six hours. And according to the constitution, a search cannot be done except from 6:00 a.m. to 6:00 p.m. As if we were among lords saying I'm sorry, I am late, I will be back tomorrow morning. No, it doesn't work. So, they need their constitutional amendment; they did not do in the 90s. They need to do it now, right now.

And they need to build independent, professional careers. If you go to the judiciary in Guatemala, there is an initiation of process, so they recruit more or less professional judges, but when they go to the level of Courts of Appeal, begin to be politically influenced, and when you are right to the Supreme Court and to the Constitutional Court, it is 100 percent a political process. So, there must be a

professional career. When a judge, an honest one, a professional one, can be magistrate of the Supreme Court just because of his or her professional merits with or without a godfather that promote his career. So, this must be built.

Then what the region needs, needs a plan. Needs a clear plan in the long-term establishing what must be done, who must do it, what is the timing, so what must be done before, what is the line to do everything, how much it will cost, and who will pay, where the money will come from? And this policy for all the region must be negotiated and must be agreed and cannot depend on this president or the other president, the next party, or this government from the different countries of the international community supporting you or not. It must be agreed, and it must be sustained at least during three presidencies.

The example for the region, the national police of Chile. So, it took three consecutive presidencies to get a reliable national police in Chile. So, it will happen the same in Central America. It is not a question of this presidency, but this one, the next one, the next one, and the next one because police is like wine, takes time. (Laughter) Okay, so, more or less, that's the problem.

At the same time, in the short-term, you cannot leave the possibilities of leaving with security, democracy, and some kind of safety making businesses, sending your children to a school, and everything waiting 10 years. So, you need something in the short-term, and this is what CICIG was.

The experience was good because, for the first time, the United Nations did something in the middle of the way, it is my interpretation, between the traditional approach of international cooperation, so just technical assistance, and then delivering the problem to yourself, and the intervention model of funding international court. So, you are unable, I will take care, I will take the cases. Then something in the middle of the

way was done, and international prosecuting process in order to bring the cases before domestic courts. And with the domestic prosecutors in a joint venture, in a partnership, it makes, obviously, the performance much more difficult. It is easier to take the guy to the Hague (inaudible) and put a life imprisonment. If you need to do it there, it is much more dangerous, it is much more expensive, and it is much more difficult, but it can be done.

Ambassador Rosenthal from Guatemala before the United Nations said to the donor countries what she has shown to Guatemalan people is that, yes, we can. It can be done. They can enjoy justice, they can live in a safe environment, and we find reliable public servants in every institution. They are there. They just need a friendly environment to perform their duties. They are not doing now because they are threatened because they know they are risking their lives, but if you go there, you identify them, you train them, you give them the legal tools, they will do.

And this is what we did, and it is very simple, do we say it, not that simple to be done but this is what we do. Right there, we didn't find reliable counterparts in the police or in the prosecuting office or in the judiciary, but we began to build this reliable counterparts.

So, we took 100 policemen from the police academy, not even graduated, and we trained them, and put them to protect our witnesses to wiretaps, something that everyone does in Guatemala, but nobody did legally before we arrived, and we make them good investigators and it worked. But to give you an idea of the amount of the task ahead, we trained 100, but the institution has 20,000. We trained 15 prosecutors, but the institution has more than 2,000. And we persuaded the congress to pass a law creating an expanded jurisdiction court in Guatemala City with the capacity of taking cases in all the territory, this part of the territory, which is beyond the control of this state, but there are 6, and the judiciary in Guatemala has more than 1,000.

So, can you imagine the task ahead in this long-term 10 years new system of building a wall between criminals and citizens? So, but this is what must be done. When we took those few public servants, Guatemalans, committed, reliable, trained and put them to work, it worked. It worked. The cases were built, were strong cases, and we get until my departure in seven trials, seven convictions. So, 100 percent. When the situation was 2 percent. So, was passed dramatically from 2 to 100, but it is obviously just a little corner of the system, so we made a very little experimental, you could say, functional justice system.

What you need to do is multiply. Transform this exception into the rule because people, obviously, prefer to live in a reliable rule of law system. People don't want to have to kill their neighbor because had a car crash or to solve a divorce killing your wife or these kind of things, but people use violence because it is an armed country. And nobody has taken the responsibility of disarming a country after more than 30 years of an armed conflict where around half a million weapons are still circulating without any kind of control. But it can be done.

So, we made the reliable counterparts, we persuaded the congress with a lot of political pressure to pass the legal reform, the minimum legal reform, not to speak about the constitution, just the basic things. Police reform, the plea bargaining, permitting us to make agreements with members of the criminal organizations in order to help us to dismantle the organization themselves. And then we went in a process of bidding or lustrations of the institutions.

But we did not what the Guatemalan authorities did. So, in the first year, the minister of Interior, with the support of international community, fired 1,700 policemen, which is 15 percent of the institutions. And then in the second year, the

president asked the attorney general the resignation, and we were able to find the 10, cheap prosecutors of all the special prosecuting offices.

And then in 2009, we went in the process of renewal of the Supreme Court, and we got 3 judges of the Supreme Court fired after having been appointed, and 2 others dismissed before being appointed. And then something began to change because people, even not very committed in the institutions, began to understand that something was changing, and that they should take the way of rule of law, and it worked.

And then we went with criminal cases. The first one was a complete failure, even if it was a very well-built case, because we were phasing impunity, and impunity means that judges in that situation extremely dangerous do the easiest possible thing, which is normally to acquit if they're risking their life. You need to put them in a friendly environment to protect them, to buy armored cars, to put the family south of the country, and they will begin to do different things.

What is happening right now? well, we were successful basically because we had the surprise factor. Nobody was expecting that something as political as the UN could achieve this goals in so short-term. So, this surprise factor is no longer working, obviously, so my successor has a much more difficult task ahead. But, at the same time, there is some kind of tired international community because the ambassadors who are activists all the time putting pressure on the government, the congress, the judicial, everywhere, and as soon as the pressure of the international community has begun to lower their results, too. Because those groups infiltrating the institutions perceive clearly the pressure, and if they feel that they can come back to do what they did forever, they will do it again and forever.

So, we need to have a clear agreement in the international community, basically the United States and Canada and the European Union, not only giving money

for the reform of the institutions, but, at the same time, sustaining in the long-term the process of intervention in the system like a Trojan horse, but mainly the most importantly, the process in the long-term of transferring the capacity and the responsibility.

So, when should CICIG leave Guatemala? When Guatemalan institutions are prepared to take themselves the responsibility. But there must be, again, a planned ending. That's the question. We can come back and discuss any possible thing.

The challenge today is Article I of the Inter-American Convention of Human Rights, which is the same of Article II of the International Covenant on Civil and Political Rights. So, we are coming from a time where states were violators. So, there are two duties. You can go to those articles, Article I or Article II, and there are two duties that every state has with their citizens concerning human rights. The duty to respect and the duty to ensure.

Twenty, thirty years ago, states were violating the duty to respect. They were not respectful of human rights. Now, the states are failing the duty to ensure. They do not prosecute, they do not investigate, they do not punish, they do not repair. So, they do not restore the legal order after an offense has been committed, and this is a duty of all the international community.

We cannot leave Guatemala alone because, clearly, Guatemala, whatever the government can be, is unable itself to solve a problem that clearly surpasses their capacity. So, it is a concern of all the international community, and it is a question not only of technical assistance, so providing something that you need, but establishing clear what are the standards in the region, what are your duties, and then helping you to fulfill your duties.

You need to have a reliable police, but it is your duty. You must do it yourself. You must own the process, and I will help you, but this is the kind of shared responsibility between member states and the organization, and ending. I agree that we need to deprive organized crime groups of their windows of opportunity. So, BRACs is one thing, but meagerness is another thing, arms and ammunitions is another thing, and there must be an agreement of how to deal internationally with money laundering. Thank you.

MS. NEGROPONTE: Judge Castresana, thank you. Thank you very much. (Applause) I think you give us a clear sense of why you didn't quite make the three years in that job, with threats on your own personal security must have been rising to an intolerable point. We've had the UN response. I now want to turn to the deputy assistant secretary for INL for the U.S. response. What's the role for the U.S. Government?

MR. NICHOLS: Thanks very much. I agree with so much of what has been said already, and, in fact, much of this already is central to our policies. When I came into the foreign service, Central America was the issue, and almost all of my contemporary served somewhere in Central America. I served in El Salvador, and I think that Central America has remained a policy priority for the United States for an incredibly long period of time.

Before we poured billions into Afghanistan or Iraq, we poured billions into Central America, and at the end of the civil wars and internal conflicts in the region, the concern that those of who were there were is what is going to happen to these profoundly damaged people who have suffered so much violence, been a part of so much violence? And I remember as I was working as the desk officer for El Salvador in 1995, I would hear stories of people robbing buses, using hand grenades to rob buses in San Salvador,

and the violence there and throughout the region, I think, predates the growth of the drug trade in the region, which is not to say that that has not exacerbated the problem tremendously, but violence there is something that has been a longstanding problem.

When you look at the trajectory of events, planned Colombia in the beginning of this century and the progress that we have seen in Colombia in institution-building, strengthening their security forces, reducing the level of cocaine cultivation and the yield of that cocaine has greatly improved the lives of average Colombians, but it also opened the door to Mexican traffickers, Mexican cartels to come in and take over the business that Colombians once ran. The response from the United States and the Mexican Government to confront that problem in a serious way through the Merida Initiative, then as the first result leads to traffickers re-warranting their efforts through Central America, and Kevin talked about nearly 70 percent of the drug trade going through Central America now. Actually, when you take out the European flow, which is an increasing part of the drug trade, it's more like into the 80s that goes through Central America. So, if you're going to bring your drugs to the United States, much of that flow, the vast majority of that flow is going through Central America.

I think that as we look toward how do we frame our response, number one is Central American leadership. Earlier in the week, I was with our Central American colleague in Madrid in a SECA sponsored meeting hosted by the Government of Spain to prepare for the Summit on Central America Security that will take place in Guatemala at the latter part of June. I think the Central American nations have formulated a very comprehensive, coherent response to the threat that they are facing to the extreme levels of violence, and we have sought to support and respond to that first through CARSI, as Kevin noted, but also through the initiative that President Obama announced when he went to El Salvador in March, the Central American Security Partnership.

That initiative seeks to enlist not only a direct bilateral U.S. response, but to partner with the region and draw upon the experience, the talents of Colombia and Mexico on either side of the isthmus and to make sure that we are coordinating fully with our European, Canadian, and multilateral partners in this effort, and I think that is a big change from what we've done in the past.

In terms of how do we advance the changes that are necessary within the countries themselves, we are proposing as part of our response challenge grants. Initially, we have identified \$20 million that we will use for challenge grants so that the nations of Central America will have a greater incentive to use their own resources, which we will match, for worthy projects to promote citizens' security. Obviously, the social component of this is vital. The people who fall into violence, you talked about what I think they refer to in Colombia as the NiNis the people who don't work and don't study ni trabaja ni estudia and trying to find a social response to those problems, those dislocations.

Fiscal reform, that is absolutely vital. Every conversation that we have within the donor community as well as with our Central American partners talks about fiscal reform, and I think when you look at the issue of fiscal reform, it translates almost immediately into a conversation about political dislocation, political conflict within the countries. I believe that every president in Central America has called for some type of a fiscal reform, and in some cases, they've been successful.

Panama has already passed a comprehensive fiscal reform, and they are using those resources, spending \$1 billion of their own money over the next few years on security. Costa Rica President Chinchilla has proposed it, but as I understand the situation, and Kevin, you know better than I would, but that has not progressed within the legislature there.

So, the idea that you can separate the political problems in the countries from the fiscal reform issue, I think, is something that just cannot be done, but we in the international community need to make it clear that we are not going to finance the solution to this problem alone. We will contribute, we will provide human capital, technology, capacity-building, but if you look at what Colombia has done, if you look at what Mexico is doing, they are spending 10 times more than what they receive in cooperation from the United States and the international community. So, the nations themselves have to step up and provide those resources.

In terms of some of the things that you've identified, we are prioritizing police development, model precincts, judicial capacity-building, prosecutorial capacity-building. We are enlisting the experiences of those countries that have preceded Central America in some of these processes like Chile, like Colombia, Mexico is ongoing in their judicial transition to the oral accusatory system, but we want to leverage those past experiences within Central America as we go forward.

President Uribe when he was travelling in Central America, spoke to a number of the business communities and said to them, among other things, in talking about the Colombia experience, you cannot finance security on the backs of the poor. And I think that is vital. Those people with economic resources need to contribute to a stronger state, stronger institutions rather than using their money to buy private security. Carlos could tell you about I think it's a four or five to one ratio of private security to public security in Guatemala. So, if everybody who has money just hires security guards and lets everyone else perish on the streets, that is not the kind of society that people want to live in.

CC is a vital partner for the international community and a priority for the international community. The United States has traditionally provided about \$5 million a

year through CC. we intend to continue our contribution. We are not walking away or backing away. We believe that the role in addressing the really serious failings in Guatemala in terms of impunity and lack of transparency and high level violence and corruption cannot yet be addressed by the Guatemalan state and that CC has a vital role to play in that process.

Speaking very frankly, I think the criticism that one can make toward what CC has done in Guatemala is that there has not been a capacity-building role that has transferred those abilities to the Guatemalan Government and built up Guatemalan institutions sufficiently. I think that the example that data has set has shown Guatemalans that it can be done. Now as we think about what is the future, we need to think about a great capacity-building role and ensuring that in the next 5 years or 10 years, there's no longer a need for an international presence.

I think if you want to look at the beginning of CC's presence in Guatemala, I think that the mandate was far too short. I think the short renewal periods were a mistake. I think we needed to say to the Guatemalan people and the international community that this was going to be a long-term effort, and I think if you look at what probably I think the biggest criticism of how the international community as a whole approaches societies with conflicts and crises is that we kid ourselves or try to kid ourselves that they are going to be quick fixes.

There are not quick fixes. When people talk about all the progress that has taken place in Colombia, it's been a decade, and certainly three or four years into that effort, there are a lot of people who said this is not working, it's not going to work, it's going to be a failure. Well, I think events have proved otherwise that it's been tremendously successful, but it is something that takes time, and when we look at Central America, we need to realize that even with our best efforts and important dedication of

resources, things are going to take time, and I think in order for you all to ask your brilliant, enlightened, and incisive questions of my colleagues, not of me, I don't want any questions. (Laughter)

MS. NEGROPONTE: You're getting them.

MR. NICHOLS: I'll stop there.

MS. NEGROPONTE: Brian, thank you very much for that. (Applause)

Before I open it up to the floor, Brian Nichols raised a point with you, Judge Castresana, about the failure to train the judiciary in Guatemala and he also raised, and I'm going to ask the Guatemalan ambassador to answer this, why only two years? So, would you do the transfer?

JUDGE CASTRESANA: Well, I think it's a long-term effort, and it is a permission between the member state that need to be supported and the international community willing to support. The question is, in my view, if CC is the response of the time, I have a clear idea that CC is like an icebreaker. It is surgery, it is in the short-term just to make the difference to build the change, but then in the long-term probably other institutions even in the UN system, all the agencies UNODC or other international partners like OAS in Central America can take the responsibility of the long-term.

So, we need to train, and, as I told, it takes time. If you want a reliable institution, it takes you 10 years. CC probably has to do too many things at the same time. So, fundraising, lobbying, legal reform, training, criminal prosecution, in disciplinary actions. Too many things in a very short term and are a good idea, but you need to be sure that somebody takes care that the ice is not frozen again behind you as soon as you leave. So, probably a sustained effort because the training can perfectly be done by you and ODC because the question, the idea is the standards are there. I think it is the assumption we should understand, the standards for the problem we are dealing with in

Central America are the United Nations' convention against organized crime, so Palermo, and the United Nations' convention against corruption, so Merida. So, you have a clear agenda, Merida, Palermo.

You need to implement this because the easiest part of the process is ratifying the convention. The problem is implementing. Developing the domestic law, raising the money to make the institution reform, and it is much more difficult. But if we are able to agree in a regional agenda of security and justice and having very clear the idea that it is a right of the people, but a duty of the correspondent government, then we can make a plan, and this plan can be successful. Obviously, funds can come, must come from the international community, training, the experience. We did this, this is the good part of the United Nations, so we brought Italian prosecutors, Colombian, Canadian policemen, people from 27 different countries to help Guatemala.

It can be done, but, first, we need to involve Guatemala itself and it must be agreed that the weakest part of the agreement of the creation of the CC was this, that it was not really bilateral. So, the agreement, creating an institutional, international body to go there and be deployed in the field is the part of the United Nations, but what is the part of the duties of Guatemala?

So, next time, in my view, it is very clear that the agreement should say well, those are the advantages you will receive, but those are your duties. You need to reform your constitutions, you need to implement wiretapping, you need to implement witness protection obviously in Central America, and there is one in the SECA with so little countries, witness protection cannot be dealt in one very small territory like El Salvador. We had serious problems to hide our witnesses because Guatemala is very small. We had to send them out of the region, but a Central American witness protection system can work and work very well, and it is much cheaper to send in the witnesses to

Canada or Europe. So, these kind of things can be done must be agreed there are Central American institutions that can do, and, yes, it is a kind of mixture of funding local and international, short-term, long-term, but it must be done because all of us should know what is the roadmap, what everyone should do.

MS. NEGROPONTE: Thank you.

Ambassador Villagran, would you address the issue of why so short, and perhaps also expand to the opposition within Guatemala, within the Guatemalan body of politics to CICIG? Please.

AMBASSADOR VILLAGRAN: Well, I don't know if --

MS. NEGROPONTE: And, yes, no, there is a microphone coming towards you.

AMBASSADOR VILLAGRAN: Thank you. Thank you for the opportunity, and I want to congratulate all the panelists for their presentations. The work of CICIG in Guatemala has been critical to begin to see some light, begin to see some possibility of improving administration of justice. And I want to thank Dr. Castresana for his personal contribution. It was extraordinary his vision, his courage, his involvement was a fundamental contribution to Guatemala. We are all grateful for his work. He has said some very important things. He said that the paradigm has changed, that non-state actors are the perpetrators of violence. That has to be understood here because many people here still think of Guatemala and Central America in light of the cold war paradigm, where the state was responsible for violence against its citizens. That is no longer the case. That has to be understood. If people are interested in helping Central America, they have to realize this.

Now, about the work of CICIG, I think it has gradually contributed to strengthening the institutions responsible for administration of justice, not just the

judiciary. CICIG has worked very closely with the public prosecutor's office, and it has transferred critical capabilities to the public prosecutor's office. I think that we begin to see a better prosecutorial work precisely because of the contribution of CICIG, precisely because of the role of CICIG.

Now, the attorney general has been able to solve some difficult cases because it has a know how that has been provided by CICIG. So, this has to be recognized. Of course, we want CICIG to do more with the judicial sector, with the Supreme Court. Dr. Castresana identified the shortcomings.

Now, one final comment about why has the mandate been limited in time. It doesn't really have to do with Guatemala. Guatemala has agreed to renew the mandate every time it has come up, and Guatemala has asked the UN to renew the mandate even before it expires. I think that the reluctance to provide a long-term mandate comes from some permanent members of the Security Council, and this has to be understood. There are countries at the UN, important members of the Security Council, certainly not the U.S., who are concerned about this type of model being implemented in other parts of the world. So, it has to do with the dynamics of the UN Security Council, it has to do with other considerations among the important members of the United Nations.

We are prepared to see the work of CICIG extended for a longer period of time. We know that other Central American countries are looking into this model and are looking into ways of replicating the model, but, again, the issue of the extension of the mandate is not something that is entirely up to the countries of Central America, the countries that have requested this assistance. It is up to key members of the United Nations and it is up to key members of the United Nations Security Council, permanent members of the United Nations Security Council.

Thank you.

MS. NEGROPONTE: Ambassador Villagran, thank you very much.

We now open it up to the floor. Please, would you be very kind and give us your name and your affiliation and just wait for the microphone to come because we are recording this session.

Yes?

MR. ALVAREZ: My name is Carlos Alvarez. I'm --

MS. NEGROPONTE: I'm going to take the three questions together, yourself, the gentleman on the left, and the lady in the blue.

MR. ALVAREZ: I'm a consultant for the Department of Defense.

MS. NEGROPONTE: And your name, please?

MR. ALVAREZ: Carlos Alvarez.

MS. NEGROPONTE: Thank you.

MR. ALVAREZ: If you look at it on a long enough timeline, one of the ways the region -- I mean, the Deputy Assistant Secretary mentioned that violence predates drugs. One of the ways the regions has corrected for that traditionally is through political movement. Now, it seems to me that we've moved for ideological conflict or political conflict to capitalist conflict. So, in some ways, political movements, even if they happen, are less able to manage the situation.

So, my question is: How do we prevent political movements of huge consequence from taking place to respond to this? And if they do, how does that in any way address the fundamental problem of drug violence and market-driven violence and what kind of policy can you put in place from a political point of view to deal with this?

MS. NEGROPONTE: Carlos, thank you very much.

We'll now go to the gentleman on the right side of the room.

MR. PARDO-MAURER: Thank you. Roger Pardo-Maurer. No affiliation, but I used to be the senior official at the Pentagon in charge of western hemisphere affairs from 2001 to 2006. So, I had a lot to do with Colombia at the time.

I'm also originally from Costa Rica, and my earliest political memories have to do with going to the marketplace at age 14 with petitions against the Central American Parliament, which would have people lineup for a mile to sign this petition and to avoid the reestablishment of the captaincy general, and President Arias was forced to basically withdraw his attempt to install Costa Rican representatives in the Central American Parliament.

MS. NEGROPONTE: Roger, a question, please?

MR. PARDO-MAURER: The question's coming. I am extremely skeptical of Central American regional institutions. What I find is when you get to regional institutions, they are corrupt, they are nice people, but they're ineffective. They have no traction in the region.

What are the institutions that you think actually could be strengthened that would have buy-in from even Costa Rica and would allow for a regional approach?

And I'll add one more thing. A question for the deputy secretary for INL. We took three years to deliver three helicopters to Mexico. I disagree that the violence in the historical violence in the region explains the levels that we're seeing now. We are back to a time like the cold war when Central America is being squeezed by forces from outside much larger than itself that need much more help --

MS. NEGROPONTE: Is the question timing for delivery?

MR. PARDO-MAURER: Yes.

MS. NEGROPONTE: Can we then move to the last person because we're running out of time.

MR. PARDO-MAURER: Okay.

MS. NEGROPONTE: Thank you.

MR. PARDO-MAURER: What are we doing about that? How are we not going to get trapped in three years to send three helicopters down to the region?

MS. SPECK: Thank you very much. Mary Speck with the International Crisis Group.

And I just got back from Guatemala a couple of days ago after a month in the capital and in the interior. I wanted to ask you, this is a question for Dr. Castresana. You mentioned your success rate which was very impressive with particularly high-profile cases such as Rosenberg, however, there was just recently a very high-profile loss, the acquittal of Former President Portillo, and I just wanted your brief analysis of the reasons and the impact of that loss. Is this just a particular case? Does this show weaknesses in the judicial system? And what could its psychological impact be? Does this really mean a loss of momentum? Certainly, the press came out, for example, with huge headlines such "Impunity," and things like that, so what are the reasons and the impact of this loss?

Thank you.

MS. NEGROPONTE: Mary, thank you very much.

Kevin, would you address Carlos Alvarez's question, as well as the first part of Roger? Would you be willing to address the second question of Roger?

And Mary Speck's is for you.

MR. NICHOLS: Okay.

MR. CASAS-ZAMORA: Are we going to be able to utter some reactions to the extremely interesting --

MS. NEGROPONTE: You can as long as you talk fast. (Laughter)

MR. CASAS-ZAMORA: Okay, good. Good. Well, first, the questions. First, the questions out of respect to the audience.

I'm not sure if I understood the question about political movements. I mean, what I can tell you in the way of political consequences of what's happening in Central America is very likely, we're going to see a radical loss of legitimacy of state institutions, not just law enforcement institutions. Actually, what has been shown empirically is that democratic institutions in general are highly-dependent on the perception of the performance of governments in dealing with the crime issue. And on perceptions of crime. Not so much, and this is interesting, on the levels of victimization. Whether you're a victim of crime or not, it doesn't really influence your perception of democratic institutions. But whether you perceive the crime as a threat, it is very important for your opinion of democratic institutions in general.

And the second thing that I see happening is a rise to a very reactionary kind of politics that it's something that the region has a long tradition of. So, that's the kind of thing particularly concerning the erosion of civil liberties that I'm very concerned about.

Regional institutions, well, I'm Costa Rican, so I guess you have to take whatever I say with a pinch of salt when it comes to regional institutions. I mean, they are very weak. They are very weak. With the exception of those institutions that deal with the economic side of integration. They tend to perform much better, and I'm saying this year not just because the bank is here, but it's objectively true. (Laughter) That's a major concern.

My impression is that the only way to get a regional plan going is if the governments get involved, and by the "governments," I mean not just the region's governments, but also Mexico, Colombia, and obviously the United States, that at this

point, it seems to me is the driving force behind this process. And to their credit, I have to say.

In a way, the short answer is that we have to work with whatever is in place and the way of regional integration, but we also have to go around that.

MS. NEGROPONTE: Kevin, thank you.

Brian?

MR. NICHOLS: Well, there are a couple of things here, but in terms of deliveries of equipment, I think one of the things that you see in any of the large programs is it takes time for both the donor country and the recipient to figure out how you're going to align your processes.

In the specific case of Mexico, our cooperation with Mexico is better than it's ever been. Mexico is an upper middle-income country --

MS. NEGROPONTE: Central America.

MR. NICHOLS: Right, but here he asked me about helicopters to Mexico, so I'll just say Mexico asked for something you would appreciate, M Model Blackhawks, which is like getting Ferraris and they wanted them tricked out. So, that took a little bit of time. (Laughter) That said, we've delivered over \$460 million in assistance to Mexico, and this year, we will deliver \$500 million in assistance to Mexico.

In Central America, the needs are much more in the area of capacity-building, human capacity-building not as much in the area of sophisticated equipment, which is hard to get, even if you want ordinary sophisticated equipment, it takes time because it's in high demand all over the world. So, I expect that things like police training, equipment for police prosecutors, computers, things like that are much easier to deliver in a short amount of time, so I don't foresee that as being a problem with our assistance.

We've also already increased the size of the parts of our embassies that deal with this within the region and we're far ahead of where we were insuring our own response than we were in Mexico. So, I think we will do a better job there, and we're already seeing improved results in terms of delivery in Central America.

Just very briefly, the question about political movements, I think it's very interesting to look at the entirety of Latin America, and I think what we're seeing in the region as a whole is a great deal of weakness in traditional political parties, and but interesting, we are also seeing that the poll numbers show that there's a great deal of more support for democracy as the preferred form of government in Latin America, and in the confidence that that is yielding better results for the average person. So, I think that's an interesting dichotomy that we need to examine more closely.

Regional institutions, I think that regional institutions are proving their worth in Central America. I think SECA has done a very good job in bringing together disparate needs and focusing in the international community on a coherent and integrated response, and I expect to see more of that as we go forward.

MS. NEGROPONTE: Judge Castresana, that leaves you with two minutes for why Portillo was acquitted.

JUDGE CASTRESANA: Okay. I think it --

MS. NEGROPONTE: Impossible.

JUDGE CASTRESANA: It should be enough. No, it should be enough.

Well, one thing we have not mentioned is fear. Societies that have suffered so terrible and much conflicts are scared. People are scared. People don't get involved in institutions or make demonstrations because they have fear. You need to fight that psychological factor.

I told someday in Guatemala, and I promise you that it was very improvised. It was not marketing. We are looking the monster to the face and we are holding the gaze. That's the question. So, Guatemalan people need not only to feel that changes can be done, but that they should involve themselves in the changes, because, if not, it will not ever be successful. High-profile cases are a risk because you try with a very short investment to multiply the consequences like, well, non-political correct comparison by (inaudible) just a little and try to get a huge effect. The risk, obviously, is that if you fail, the reversal is also enormous.

I think that the Portillo case was perfectly built, there was enough proof to get him convicted, but the monster was there. So, this is the lesson we should learn. The monster is still there. Hidden but, obviously, showing its capacity every time he has the opportunity. So, if we are not able to persuade Guatemalans that we are still there, that we were still be there in the long-term and that we will still hold the gates of the monster, the reversal will come and will continue coming. So, this is a very clear message. We are here to stay, we are here to help in the long-term. You please do not be scared because this is your country, this is your future at the stake, and those are your children that will enjoy a better country. But we need to send a very clear and firm message for the long-term. If not, we will fail.

MS. NEGROPONTE: Kevin Casas, the members of the next panel have given you two minutes.

MR. CASAS: Okay, I mean, very, very quickly, I just want to stress what I think is the most crucial point of what I've heard here, and it was Justice Castresana who said this. I think the most crucial problem that one sees when it comes to citizen security in Central America and elsewhere in Latin America is a sense of perplexity. That

no one really knows what to do with the problem. And I think this message that it can be done, that there is a way out is crucial at this point.

There are not only bad news when it comes to citizen security in Latin America. There are successful experiences. The problem is that we are having trouble understanding that there are no quick fixes and that the solutions, the things that need to be done take more time, are more costly, and are more demanding of us as citizens. So, in the end, we're falling for this kind of short-term solutions of which the iron fist is the quintessential example. The iron fist is when it comes to public policy is no more than a drug fix. It's something that gives you a very intense satisfaction, but it's also a false and shallow satisfaction. The real solutions take much longer and are more demanding.

MS. NEGROPONTE: Kevin, thank you, and thank you to the members of this panel. I'm going to ask you all to express our appreciation. (Applause)

(Recess)

MR. FEINEBERG: Okay, ladies and gentlemen, if you'd like to take your seats. We have plenty of room up front here. Don't be shy. You can sit up front. We will not ask you questions if you sit up front. It's perfectly safe to sit up front.

Okay, ladies and gentlemen. I'm Richard Feineberg. I'm currently a Visiting Fellow here at Brookings and also at the Woodrow Wilson Center and also at the University of California, San Diego. We welcome you here on behalf of Brookings as well as the Central American Bank for Economic Integration, CABEL, our sponsor.

CAFTA, the centerpiece of our discussion now on trade and investment economics -- I want to emphasize that CAFTA after all was not a U.S. idea. It was a Central American idea, often a point that's missed. Just as CAFTA grew out of NAFTA, NAFTA was a Mexican idea, a Mexican proposal, not a U.S. proposal. It was Mexico who went to then-president George Bush and proposed it. The U.S. followed. Then after

NAFTA we had the FTAA process, also a Latin American proposal. And I want to emphasize this because these were trade agreements that were always very uncomfortable in the United States, always involved a lot of political controversy, difficult for every administration to move it through public opinion and the Congress. Every one of these trade agreements has been a huge headache for the Executive Branch, and this is something that, therefore, I want to emphasize the origins of these agreements. Not something imposed somehow by the United States, but rather something that originates as a desire from, in this case Central America, resulting in the eventual partnership with the United States.

For those of you who remember, CAFTA passed by the thinnest of possible margins in the U.S. Congress. CAFTA was also controversial in Central America. In fact, in Costa Rica I believe the only plebiscite ever held on a free trade agreement was held in Costa Rica and also passed by a fairly and very nervously thin margin. There was a lot of opposition in the United States. I remember then-Senator Hillary Clinton we might remember voted no on CAFTA. I remember in my discussions with her on this issue, she said, "But if there's increased trade with Central America, what will the Central American businessmen do with that money? Will they invest it in Central America or will they just buy another condominium in Miami?" the then-Senator Hillary Clinton said. So there are a lot of questions about the degree to which Central Americans are devoted primarily to the advancement of the economics in their own region.

Today we're going to look at what's been accomplished, and what are the remaining challenges. I think in assessing any trade agreement, we have to be realistic about our benchmarks. A trade agreement can advance trade, imports, exports, perhaps savings and investment, flows both international as well as domestic, but a trade

agreement cannot solve all problems and certainly not overnight. A trade agreement by itself will not alleviate rural poverty. A trade agreement by itself will not solve problems of crime and governance. And all too often people say, "Ah, Central America still has problems, therefore CAFTA hasn't succeeded." We all know that's very foolish and poor analysis, and we're certainly not going to fall into that mistake here with our excellent panelists. We have to have realistic benchmarks when we judge any economic agreement, what can be accomplished.

A trade agreement opens the doors to increased trade, but in the end the countries themselves have to take the measures to make it happen. Private investors have to take the measures and the opportunities to make it happen, to take advantage of the opportunities that a trade agreement offers. The trade agreement by itself doesn't move one article, does not move one import or export. It has to be the private sectors themselves that push through those doors.

So we want to look at the challenges that remain, and I think that's what our panelists will emphasize. You know, if you look around the Caribbean Basin, really the whole region is struggling economically and socially. And when I say the Caribbean Basin, I include, by the way, the states of the United States that border on the Caribbean Basin: Mississippi, Alabama, Louisiana; all have serious socioeconomic problems. So we might ask what is it about the Caribbean Basin? Sometimes we say it's smallness that's a big problem. Well, if that's the case, why is the southern United States also struggling in terms of its socioeconomic issues? So what is it about the Caribbean Basin? Is it in part not just economics, which we'll be discussing today, but problems of governance, of institutions, problems of social inclusion that not only are themselves important and critical issues, but also have a negative effect on investment climate and on economic dynamics. We want to look at those issues.

One of the most controversial aspects of CAFTA was the labor provisions, Chapter 16, which was required by the U.S. Congress in order to get it passed. It was something that we can all say honestly, the Central Americans were not particularly happy about for a number of reasons. But anyway, it's part of the agreement now. So 5 years later we want to assess what's been the impact of CAFTA on employment, particularly youth employment which was a big subject in this morning's panel on security. Large numbers of an army of unemployed youth certainly creates huge problems, social problems, security problems. What has CAFTA done to help alleviate that problem? Have labor codes been sufficiently updated? How about implementation? How about efficiency of labor markets, wages, and labor standards? What can we say? I do want to mention that the USTR just announced, and I think perhaps that will be discussed, that the United States is bringing -- now has asked for a panel to investigate violations of labor rights in Guatemala. And according to a USTR press release, this is the first labor case ever brought by the United States against a trade accord partner, not just in CAFTA, but anywhere. So it's a precedent-setting case, and I think it's worthy of our attention. Basically, the U.S. said that it found that "the Ministry of Labor in Guatemala has failed to investigate alleged violations, important violations, murders of union leaders, and that the courts have not enforced orders involving labor rights violations," an important, perhaps precedent-setting, case.

I do want to very briefly mention, to wrap up my little introduction here, Nicaragua. One idea behind CAFTA was the political economy of a trade agreement, that a trade agreement is a lot more than just about goods and services flowing across borders. A trade agreement locks a country in, if you will, to globalization in a very direct and legal way as well as an economic way. And a test of that, I would suggest, has been the current government of Nicaragua. And one could argue that in the case of

Nicaragua, the fact that Nicaragua has remained within CAFTA, that the government maintains good relations, normal relations with international financial institutions, that macroeconomic policy has remained sound and on track, and that the relations with the private sector and the government of Nicaragua are not bad; certainly in contrast, for example, with the situation in Venezuela. So one perhaps could argue that CAFTA has played a vital role in maintaining the integration of Nicaragua into the global economic system.

Well, enough of that from me to set some themes, we now -- I want to turn it over. We have four, really top-flight panelists here. Each will take about 10 minutes because we do want to have some time for Q&A from the audience.

As our leadoff hitter on the far right here, my good friend, David Lewis, known to everyone, and certainly in Washington who has anything to do with trade issues in the Caribbean Basin, he's been working on these issues for several decades. He's the Vice President of Manchester Trade. During the CAFTA negotiations, he was very active advising a number of governments -- Dominican Republic and Nicaragua in particular -- active with the textile industry in Guatemala, and the sugar industry in Costa Rica. David Lewis has a degree from the Wharton School of Business, Brandeis, and the University of the West Indies in Jamaica. David, lead us off, please. Thank you very much.

MR. LEWIS: Thank you, Richard, and thank you to Brookings and the organizing committee here on CABEL for hosting this here in Washington and for inviting us to attend. I'm the sole business representative here, so I figured I'd focus just on some of the business aspects and interests of the agreement and where it's taken us. And in good business manner, what's the concern for the quarter of the month? So I'm not going to take a very long historical view. If you're interested in that, you can Google

it. It's very good now. You go and hit "Nicaragua exports to U.S." and you'll see what has taken place.

But I think first and foremost, we've seen as was expected double-digit export growth from almost every country in Central America, especially in Nicaragua with the steepest curve, leading the way into the U.S. And I think that's important because even in the case of Nicaragua, which you'd remember decades before CAFTA we had the Caribbean Basin Initiative, which actually launched this whole relationship with the U.S. It was lagged under CBI and its late arrival into CBI. And then almost immediately after, CAFTA really gave it an advantage to jump start in many sectors of the economy where other countries in the region had been expanding.

First issue, I think, is we need to understand that what the agreement did first and foremost was consolidate what had been the traditional CBI preferential regime of exports, which was really predominately concentrated on light manufacturing, the free trade zone maquila model in Central America. And, therefore, the concentration in one sector/product category which was textiles and apparel, and the region had done very well on that. And that's why if you would have done a real easy sample in those days when Central America, as Richard mentioned, proposed the CAFTA way early on in the '90s, actually even before Chile with the Clinton Administration, 98.9 percent of those pushing were people in the free trade zone, maquila textile and apparel sector in the region and in the U.S. And the idea was we need to consolidate what we have; we need to make it permanent; and we need to have that for growth. But when you look at the numbers, that sector was already a top export performer. And many of the statements against CAFTA were like what then-Senator Clinton said, but many others were like what we hear now with Panama and Columbia. Well, if they're exporting so great already and they're doing so well with preferential trade, why do you need a free trade agreement?

What is it going to offer? And indeed what it offers is one, consolidate and lock in that relationship and make it bilateral.

And then the second point, which is when you look at that double-digit growth in export, what you realize is that that traditional sector, very happy with the agreement, had already tapered off. And where we start seeing the massive growth is really in the nontraditional, particularly commodities: Agro products, agro business, poultry, dairy, beef, produce, leveraging various factors that the region had going for it: Labor competitiveness, access to agriculture and land competitiveness, i.e., large expansions of land, and the new market opportunities in the U.S. which were not covered under CBI. And when you break down the growth, the double-digit export growth from the region into the U.S., you begin to see that in the worst case more than half of that growth is in that category, and in many cases it's really close to 75 or 80 percent. And one of the real good telling stories is when you look at a case like Nicaragua, which did not have free trade zones under CBI because of Mr. Ortega and his regime back then, not only added that to its portfolio, but then expanded on its agricultural competitiveness on land-based production. And when you go here in Rockville and you buy crema salvadoreña, you wonder well, really, where does El Salvador produce all this crema from? And it's not salvadoreño, it's a product centroamericano which comes from agricultural production in Nicaragua, which then gets commercialized and value added by the smart Salvadorans who can't produce it anymore, but they source the production somewhere else. And that then links up to really what's the importance of CAFTA within the region of the production and the trade supply chain because now the producer in San Salvador, El Salvador, now is the producer in San Salvador, Central America, sourcing and linking back and forth to them.

And in that sense, key issues under the agreement that are really coming to the forefront now really have to do with the implementation, the rules, the management of the trade in these categories. And that's where we see really what we call in our business the transactional focus of CAFTA. Issues like customs issues for entry and for access in a given market, rules of origin issue. Does it originate? Is the value added provided in the country or in the region? And also particularly with the areas of agriculture and food stuffs, sanitary and fight for sanitary issues which are really the big area of work for people in our business now, not so much the macro. How do we handle trade? What should be the policy? But really the microsector or product-related issue on what is the problem with a beverage item, a commodity item, coming into the U.S. and making sure it fits the criteria.

The third point, I think, is the modernization -- what this does to the modernization in the region because of the demand in the receiving market in the U.S. for that supply chain in terms of distribution, market efficiencies, in-region distribution as well because now the CAFTA is for all the countries in the region as well, and obviously in the U.S. for sales and distribution opportunities.

But this then goes beyond manufacturing for export, and what we've begun to see are countries taking advantage of services, markets, and services opportunities, growth in the tourism and hospitality and entertainment sector, the ICT sectors, call centers. Again, just Google "call centers Central America" and you're going to realize what the massive boom has been in almost every country of the region, linking to suppliers in the United States.

One of the key issues we see in terms of challenging beyond these areas of production and trade -- and Richard mentioned it -- is really the whole question of, how do you maintain that if you do not dedicate resources and efforts to social investment?

And I think that's where we saw that really the country that was able to leverage best its engagement with CAFTA and the U.S. economy -- no surprise, Costa Rica -- not that they negotiated a better deal, which maybe they did, Minister, or they covered better issues, which maybe they did, but they had 30 years of a head start investing in the critical factors of production to engage free trade; labor, education, research, institutions that work. And, therefore, when you see the composition of Costa Rica's trade relationship under the CAFTA, it's all over the place. But it's all over the place before CAFTA. Intel moved to Costa Rica over Puerto Rico or Singapore before CAFTA. Hewlett Packard then joined. So you have a spread, but it's a spread because they could afford it because they had invested in those sectors. I think if we see the other countries able to do that, it's going to have to require not just the good market access, not just the well-priced products and well priced in the U.S., it's going to have to have an investment in those areas in order to have the competitiveness.

Just two quick points, Richard, because it was in our talking points, what does this do for relations with other regions? And I think we're seeing it. The region didn't stop with CAFTA-DR with the U.S. It moved on with Canada, Colombia, Panama, now talking with Brazil, China. There's a wonderful story: If anybody can figure out which is the country whose current ambassador in China was a former trade minister and negotiator and also a business manufacturing leader and you tell me, do you really think that ambassador is in China to do diplomacy for his country? I don't think he's there to do diplomacy. Others can do that. He's there to do what was done similarly with CAFTA and the U.S. So they're doing that, that's moving, and I think the CAFTA's going to be -- is working as the anchor in many of these other sectors to diversify into those other markets.

One quick point on the U.S. role -- and I know Ambassador Sapiro will focus on that -- I think a lot of our focus has always been on implementing and managing many of these agreements. Yes, we have this labor case now, but check back. We had an investment case on railroads. We had an investment case with a mining company again in the CAFTA countries. I don't think we're doing enough on the business promotion and marketing sense. Commerce is not here today, but that's a big area of opportunity with the President's National Export Initiative because in business you always invest first with your leader and then you go on to the others. The leader currently is that group of countries who have free trade agreements and have a proven track record with the corporate community. And I think if we're able to close that circle with the CAFTA-DR countries, we're on track to really get the diversification, get the competitiveness, and move into some of those other value-added, high-wage paying, and much more stable areas of competitiveness in a very unstable global economy environment. So, thank you.

MR. FEINEBERG: David, thank you very, very much, excellent introduction. I'm glad you mentioned the issue of call centers because I think call centers is an area where the region has a -- thanks to the Diaspora, actually, the region actually has a comparative advantage in bilingual speakers, and that's an interesting area for growth.

I'm also glad that you emphasized -- the CAFTA is about U.S. and Central America, but CAFTA is also about regional integration. This was something which I'm proud to say -- and this was Bob Zellick, actually, as I understand it. Initially, the Central Americans came to the U.S. and wanted to do a series of bilaterals. And Bob Zellick at USTR said "No, we want genuine integration within Central America. We will help you realize your 200-year dream of establishing a unified Central American market." And CAFTA, I dare say, laid the basis really for now in the security area, the Central

American Security Initiative. So economics there has helped us with security issues very directly. So, thank you, David.

I'd now like to turn to Miriam Sapiro. We're very pleased to have her with us. She has, of course, an extremely busy and demanding schedule. She is the Deputy at U.S. Trade Representative; Deputy, of course, to Ambassador Ron Kirk. Ms. Sapiro has very broad responsibilities covering the Americas, but also the Middle East -- an area of not inconsiderable interest these days -- as well as Europe. On specific issues she has in her portfolio issues very relevant to our discussions here today, services, investment, small business market access, and industrial competitiveness, which I think will also be a topic. I know Roberto's going to address the issue of industrial competitiveness, all very relevant.

Miriam tells me that she does has a meeting at the White House that she has to leave for fairly shortly, and she apologizes for that in advance, but we are very, very grateful to have her with us for this period of time. Ms. Sapiro, thank you very much.

MS. SAPIRO: Thank you so much, Richard. I know it sounds like an excuse, "have to go to a meeting at the White House," but honestly, I tried to change it several times and so far no luck. So, unfortunately, I may have to depart a little bit earlier than I would like. But I'm really thrilled to be here with all of you. I can't think of a more exciting time to be working on trade in the western hemisphere.

We have an incredibly active agenda, as I think many of you know, and it's probably going to get even busier, which is good news. It's only fitting that we have such an active, dynamic, agenda. When you think of how much our trading relationship with Latin America has changed and increased over the last few years, currently we're exporting now three times as much to the region as we do, for example, to China. We've been working hard for awhile now and I'm very pleased to be able to report to you that we

have made significant progress on a number of issues involving the hemisphere. Some go back many years; some arose a few years ago; some have popped up more recently. But we've been working very hard to make progress. Most notably, earlier this month we commenced technical discussions -- this is the informal process -- with Congressional staff in both the House and the Senate on all three pending trade agreements, including the pending agreement with Colombia and the pending agreement with Panama.

Also based upon President Obama's very successful trip to the region in March and our first high-level CAFTA-DR meeting that took place a month previously in San Salvador in February, we're also moving ahead on a number of very important initiatives with each of those partners that I'll say a few more words about in a minute.

While the focus of our discussions today is, of course, on Central America, I do want to start with a broader perspective on our trade relationships with some of these key partners before focusing a little bit more in depth on the CAFTA-DR relationship. As I mentioned, the President visited Latin America in March. I'm sure it was a trip that many of you followed with great interest. Our goods exports -- and I'm including exports and imports to Latin America, including Mexico -- was over \$660 billion last year. Our goods export -- in other words, U.S. exports -- were up 27 percent from 2009 and may account for 24 percent of our global exports worldwide, just to give you a sense of how important this region is to us as well as, of course, we understand we are, too, to the region.

Ambassador Kirk accompanied the President to his visit to Brasilia and also to Santiago and trade was the focus, a focus I should say, of discussions in both of those capitals. In Brazil we signed a landmark agreement on trade and economic cooperation. The acronym -- of course, we have an acronym for everything -- the acronym there is ATEC, A-T-E-C. This agreement creates a new, bilateral trade dialogue

at a senior level that will deepen our cooperation on a range of issues, including innovation, trade facilitation, and reducing technical barriers to trade. We expect that the first meeting will take place later this year.

In Chile President Obama and President Piñera acknowledged the remarkable expansion that our bilateral trade relationship has seen since our FTA with Chile entered into force in 2004. Two-way trade has increased about 300 percent and last year totaled \$18 billion. Further strengthening our already excellent cooperation with Chile, the two Presidents reaffirmed their commitment to full implementation of the FTA, including achieving significant progress on intellectual property rights, protections this year that will enable our businesses to innovate and to stay competitive.

The President also met in Central America with President Funes of El Salvador. The two leaders reaffirmed the need to increase trade and investment and economic growth across Central America and their intention to work with countries in the region to make the borders more efficient and more secure so that we are encouraging trade and economic growth rather than constraining it.

Turning to the pending trade agreements, we are deeply engaged, as I mentioned, in these technical discussions with Congress right now to try and finalize the text of the implementing legislation for all three agreements. We're doing this in parallel with our work with Congress on a strong and robust renewal of trade adjustment assistance, what we refer to -- the acronym there -- is TAA. It's vital that we renew a strong TAA program because this supports Americans who need training and other services when their jobs are affected by trade. TAA is a critical component of our comprehensive trade agenda for this year, and that agenda also includes renewal of the two preference programs that have lapsed, both GSP and ATPA, as well as permanent, normal, trade relations for Russia as that country enters the WTO.

I've got a lot of notes here, and I don't want to leave out any key points. GSP and ATPA, of course, are of special interest to many countries in Latin America. In many cases, GSP is the only preference program for which they are eligible. In some cases they are also eligible for ATPA, which has been a very effective part of the arsenal for combating narcotics production and facilitating trade. We, therefore, are calling on Congress to renew both programs for as long as possible. For Colombia in particular, an extension of ATPA will restore trade preferences until that trade agreement can enter into force.

With respect to Colombia, as you know we had serious concerns about several issues regarding the protection of labor leaders and organizers and regarding the full protection and enforcement of labor rights. The President instructed us earlier this year to intensify our engagement, to try very hard to resolve these outstanding issues. I'm pleased to report -- again I hope that many of you already know this -- that we were able to develop a very concrete, comprehensive, and ambitious action plan related to labor rights with Colombia that the two Presidents announced on April 7. This plan significantly expands the protection of labor leaders as we had hoped. It also bolsters efforts to punish those who perpetrate violence against labor leaders, and it also strengthens the enforcement of the labor laws in Colombia. There are very specific actions that Colombia in some cases has already taken, in other cases will take before the agreement is formally submitted, and in other cases there are steps that Colombia will take before the agreement would enter into force. At each step we're working very closely with Colombia on implementation and jointly assessing progress.

The work's been made possible by two very important factors I want to highlight. First is our determination to ensure that our trade policy reflects not only our economic interests, but also our core values. And second, President Santos'

commitment to ensure that workers in Colombia can exercise their basic, internationally recognized rights and to be free from labor threats of violence.

In the case of Panama, we've also worked closely with that government. It's acted to change its labor laws to improve the protection of internationally recognized labor rights. President Martinelli, for example, recently signed legislation to eliminate certain restrictions on labor rights in export processing zones and to extend full collective bargaining rights to workers in companies that have been operating for less than two years. Panama also enacted reforms to a 2010 law that created a special economic zone in Baru, and it now extends full collective bargaining rights to workers and important protections for temporary workers in that region. Panama also acted to improve its tax transparency practices. This administration, led by the Department of Treasury, succeeded in signing a tax information exchange agreement, a TIA, with Panama last fall, and that agreement entered into force for the two countries in April. Moving ahead on both of these agreements is very important now that our concerns have been addressed in a way that we believe is consistent with our values and that also levels the playing field for American workers. These agreements will help keep U.S. exporters competitive -- David talked about competition a few minutes ago -- as Colombia and Panama enter into trade agreements with the European Union, with Canada, and with other partners including Central American countries. It will also help us achieve the President's goal of doubling U.S. exports by the end of 2014. Once the new trade agreements are approved by Congress, the U.S. will have such arrangements, agreements, with 20 countries. The ten in this hemisphere will form an important arc from the very north of Canada to the very south of Chile.

Turning for a moment to Central America and CAFTA-DR in more detail, I want to say that in just over 5 years since CAFTA's first implementation, we have

already seen positive trade and economic outcomes for all seven trading partners, and we have seen significant increases in trade and investment among all countries. As I mentioned, I had the privilege shortly before the President's trip of representing the U.S. at the first CAFTA Ministerial in El Salvador, and I was there along with Anabel. I can say we had a very successful meeting. We reviewed the trade and economic impact of the agreement and discussed a broad range of ideas for further enhancing the competitiveness in the region and the integration that we have already seen so that everyone can enjoy the benefits more fully, not just the companies, but seeing the benefits filter more broadly throughout each society.

Just to give you a few statistics: Despite the economic challenges faced by the global economy in recent years, we have seen two-way trade between the U.S. and Central America grow by 37 percent, from \$35 billion in '05 before implementation of the agreement to \$48 billion in 2010. We've also seen a diversification of exports from Central America and, most importantly in some respects, regional integration, which David also mentioned, growing significantly. Investment flows as well are on the rise. They were 123 percent higher in the 2006-2009 period after CAFTA than during the period before the agreement. The Ministers took several decisions to improve the operation of the agreement, to agree on changes in textile trade that we believe will benefit the region, and to launch a number of new initiatives specifically with respect to small and medium enterprises and to improve trade facilitation under the agreement.

I mentioned the importance of regional integration. In particular we made a few changes to the agreement's rules of origin so that textile and apparel goods can be incorporated more easily into products and in our view would boost regional integration and trade further. We also endorsed a Trade Facilitation Initiative with support from the Inter-American Development Bank, which we again believe will boost competitiveness.

I'm particularly pleased that we also recognize the role that SMEs play not only in the United States, but also in the region. Our concern is that very few in the United States currently export, and as part of our NEI we are reaching out to more SMEs, encouraging those who do export to try and double the number of customers they reach in a market. And for those that don't export, to show them how to do it, to make sure that they have the tools they need. And David mentioned the Department of Commerce and their efforts; they are very involved, including in Central America, I can assure you. And we recently unveiled a new Web tool that anyone can use, but we think will be especially beneficial to SMEs, and you can find it at export.gov. But it basically enables you to look at any FTA partner and any tariff line based on your product line and figure out what the benefits are in terms of tariff reduction, what year they take effect, and additional tools to make sure that the SMEs can take full advantage of these reductions in trade barriers that we've successfully negotiated.

We look forward to a lot more work to do in the CAFTA region. We're starting a process of dialogue with stakeholders throughout the region so that we can hear directly from people what's working, what's not working. I'm of the view that things can always be improved, so we're looking forward to a very healthy dialogue with the private sector and NGOs to see what more we can do.

As part of our commitment, too, embracing trade and liberalizing trade, we do have a very strong commitment to enforcement. It was Richard who mentioned the steps we took recently with respect to Guatemala. We're very committed to the full enforcement of all of our trade agreements, and this week we indeed requested consultations with the government of Guatemala regarding its apparent failure to effectively enforce its labor laws. By invoking a meeting of the Free Trade Commission under Chapter 20 of the CAFTA Agreement and by taking the case to the next step in the

dispute settlement process, we hope very much that we will be able to effectively resolve this problem. As part of our comprehensive trade agenda, we are vigorously going to defend all of our trade rights so that we can truly have a level playing field for our workers and our manufacturers and farmers and ranchers.

So I hope I've given you a snapshot of some of the significant work that we've done to date. I fully expect that the remainder of 2011 will be just as active as the first few months have been. I look forward to working with all of you as we push ahead on our legislative agenda and we work to fulfill the President's commitment to double exports by the end of 2014. I also look forward to working with all of our colleagues in Central America and DR and our stakeholders in the ongoing operation and implementation of the agreement to make sure that it's truly advancing initiatives that can broaden and deepen economic growth throughout the region.

And last but not least, I look forward to working with all of you to pass the three pending trade agreements and to begin the work on implementing them. We will leverage the success throughout the region and engage more fully with other partners in the Caribbean and South America in our continued quest to lower barriers, boost export, and generate greater economic growth for all.

So I welcome any questions that you have, whether they're now or later, and again, I'm truly delighted to be here with you this morning.

MR. FEINEBERG: Miriam, thank you very, very much for a very authoritative explanation of our relations with Latin America more broadly as well as here in CAFTA. It's often said, though, that the United States has sort of lost interest in Central America. I think your presence here today with all of your global responsibilities is yet another clear demonstration that that accusation is incorrect, that in fact the United

States government in its many formats and administrative locales, et cetera, does maintain, including at senior levels, a continuing interest in Central America.

I also want to congratulate you personally on the agreement with Colombia. I know how difficult that was. It took many years really to finally nail this down, but it's a major achievement for both Colombia and the United States and will have a positive effect not only in terms of commercial relations, but the geopolitics of the United States in Central -- throughout Latin America.

The idea of stakeholder dialogues -- I'm very glad to hear about that as well because trade is not just minister to minister. Trade involves populations as a whole and, therefore, it's very important that people feel engaged as businessmen, as citizens, as youth, et cetera, and that's what stakeholder dialogue enables. And as you said, there are always possibilities for improvement, and stakeholder dialogue allows the voice of the people to affect a trade policy.

I know you said you need to leave early, unfortunately, and we respect that. So maybe I'll use the podium here to just pose one question if I could. Looking ahead, now we have quite a few agreements throughout Latin America. We've probably reached a certain plateau at this point. You can correct me if you disagree, but in terms of FTAs, so when the Pathways for Prosperity was set up in the previous administration, the idea was to begin to string together to make more coherent the various FTAs throughout the region. When this administration came in, it maintained the Pathways for Prosperity, but gave it a somewhat different focus, a little more of a social focus if you will. I'm wondering if now, as we finally finalize both Colombia and Panama, if you see possibly the Pathways for Prosperity or some other form taking up once again this idea of trying to knit together and make more coherent and efficient the various FTAs in which the U.S. has engaged throughout the western hemisphere?

MS. SAPIRO: So we haven't yet gotten through the current challenges --

MR. FEINEBERG: Looking ahead here --

MS. SAPIRO: Right. I admire your foresight in terms of thinking through what's on the horizon. Right now we're very committed to doing what we can to see these trade agreements succeed, both in terms of gaining broad support for them and also starting the implementation process. As I mentioned, they're not the only pieces of our legislative agenda this year. TAA is critical. I can't imagine starting the formal process on the three trade agreements including, of course, Korea which we wouldn't discuss here otherwise but is relevant for that purpose. I couldn't imagine doing that without also having to deal with Congress on trade adjustment assistance. So we are working with Congress on that and very focused on the challenges for this year.

Now, I'm not avoiding your question because I want to say that I think it's clear that this administration is very committed to Central America as well as to South America and having the strongest web of relationships possible with our key partners in terms of not only economic issues, but also political cooperation in the region and around the world. So we have a firm commitment. I think we have a very good relationship. I described the President's trip and just picked out a few highlights that related to trade, but as you know, it was a much broader agenda. And it was a trip I think that was viewed not only in this country but in the places he visited very successfully. So my point is that we have a very firm commitment and there are different ways that we achieve it, different tools that we use. In some contexts, we have free trade agreements; other contexts we have other initiatives. Sometimes they're agreements, sometimes they're arrangements. Most of us are members of the WTO. I want to say all, but if I do that somebody will probably say no, so and so isn't. But it's a very full relationship so we're very focused on that, achieving what we can through bilateral dialogue, through regional efforts like the

Pathways to Prosperity Initiative, and really using everything to its fullest. Not necessarily saying this one's only for that or this is only for this, but really seeing how as like-minded partners we can achieve the broadest and highest degree of economic growth possible because of the many benefits it has for each of our countries.

MR. FEINEBERG: Okay, well thank you very much for being with us. And if Miriam has to leave, one of her assistants will be with us for the question-and-answer period so we will have a chance to ask USTR any further questions.

MS. SAPIRO: Yes, I'm going to invite Andrea Malito to take my seat, and I guess she can later tell me I saved all the hard questions for her. So, anyway, Andrea's been absolutely a terrific member of my team, focusing almost exclusively on Central America, an incredible depth of knowledge and dedication and commitment to the region. So I'm very sad to leave you, but I want to assure you that I'm leaving you in excellent hands.

MR. FEINEBERG: Well, thank you very much for being with us. Miriam Sapiro.

Now I'm pleased -- now I'm very happy to introduce also someone extremely well known to all of us who have been involved in Central American trade issues over the years, now the Minister of Trade representing Costa Rica, was the chief negotiator for Costa Rica during the CAFTA negotiations. Anabel González, very well known, widely respected for her very deep knowledge of international trade and economic issues more generally. She is known as a very formidable negotiator as well as somebody that Costa Rica is very lucky to have at the helm as Costa Rica now implements a CAFTA as well as implementing a number of FTAs as Costa Rica takes the concept of FTAs and goes very global. Anabel, thank you so much for being with us.

MS. GONZÁLEZ: Thank you, Richard, for your kind words, and thanks to Brookings and to CABEL for this invitation to share with you some thoughts as regards our trade agenda in relationship with CAFTA and beyond.

I probably should start by saying that in recognition of the role of trade and investment in generating growth, over the past couple of decades Central American countries have pursued a policy aimed at integrating their economies into global markets. Most of the agenda has been centered on building a strong trade platform from which to export goods and services and generate jobs, a platform that has also served as an instrument for introducing greater competition in local markets, eliminating distortions, and enhancing the options of Central American consumers.

Now this trade platform is a key driver of the country's growth strategies. Most of their trade agendas are organized around it. In the case of Costa Rica, in particular, this agenda is based on three pillars. First, expanding and strengthening the created platform; second, improving its performance; and third, maximizing its benefits.

Now as regards the first pillar, expanding and strengthening the trade platform, the negotiation of free trade agreements alongside with our participation in the WTO and in the Central American integration process is key. We have free trade agreements in place now with 14 of our trading partners, currently covering about 65 percent of our trade. Now of these agreements, of course, CAFTA is very relevant as the United States is our most important trading partner. And here I'd like to take a few minutes to comment on CAFTA results. I won't go into the numbers as Miriam already did, but they showed that both trade and investment have grown significantly during this five-year period for which CAFTA has been in effect. In the case of Costa Rica, I would say that this is probably the country that has benefited the most from the agreement. Total trade with the U.S. increased from about \$10 billion in '08 before the agreement

came into force for Costa Rica to \$14 billion in 2010 while inflows of foreign investment in the years '09 and 10 have reached \$2.7 billion despite the international economic slowdown. Moreover, I believe one very important impact of CAFTA for Costa Rica is that both the telecom and insurance markets, long-held state monopolies, were finally opened to competition significantly enhancing competitiveness in the country.

Now with the aim of reenergizing and further unleashing CAFTA's potential, we propose a Trade Facilitation Initiative that would tackle the priority needs of the region in areas such as customs procedures, logistics and the supply chain, technical standards, and others, so as to expedite the movement of goods and services among CAFTA parties. In designing and implementing this initiative, which was adopted as Miriam mentioned at the meeting of the Free Trade Commission in February, we are grateful to have the support of the Inter-American Development Bank, and we hope to count on the input and guidance of private sectors of all countries.

Now in further expanding and strengthening our trade platform, we have also pursued FTAs with both the European Union and China. In the case of the European Union, Central American countries including Panama concluded an association agreement last year which we expect will come into effect next year. Though this agreement is not applicable among Central American countries as CAFTA is, as Richard reminded us, it does include provisions for facilitating regional transit of originating goods, a novel feature not included in CAFTA which I believe will have a very positive effect on trade.

Now in the case of China, Costa Rica negotiated an FTA which is in the final stages of legislative approval and which will most likely enter into effect the second half of this year, as would be the case of a Costa Rica-Singapore FTA as well. With

these agreements -- when both the EU and the China agreements come into effect -- close to 90 percent of Costa Rica's total trade will be covered by FTAs.

Now to further complete and consolidate this platform, we are revising our agreements with Canada and Mexico which have been in effect for a long time now. And we are also trying to bring more Caribbean countries into the Caribbean-Costa Rica free trade agreement that we have in place. We've also concluded an agreement with Peru two weeks ago, and we will be launching negotiations with Korea and the AFTA countries during the second semester of this year, and other candidates may follow as we explore the potential of other emerging markets.

Now three additional issues I think are worth highlighting: First, we are very keen in strengthening our relations with Asian markets. As a matter of fact, we have been interested in becoming a member of APEC for a long time now, and we continue to await the right opportunity to make this happen. In the same regard, we are closely watching the transpacific partnership negotiations with great interest.

Second, we continue to evolve significant efforts in further deepening Central American integration. This process, which I believe to be the most successful subregional integration scheme in Latin America, is facing important institutional challenges at this time. And I am afraid this will negatively impact the process for some time, at least until some anomalies are rectified. And this is something that I can refer to in more detail during the Q&A period.

And finally, I would like to share with you that Costa Rica is taking a number of steps to enhance and strengthen our involvement at your Organization for Economic Cooperation and Development with a view towards becoming part of the organization in the future. We believe this to be a natural step in upgrading our institutional capacity and in moving forward in our development process. And I am glad

to say that our interest has been very well received by many OECD members, including the U.S.

Now as it is important not only to expand and consolidate our trade platform but to make sure that it functions properly, the second pillar of our trade agenda includes on the one hand actions aimed at enhancing the performance of government agencies with specific responsibilities as regards the application of trade agreements, and on the other mechanisms for supervising and ensuring compliance of agreements by our trading partners and by ourselves. In the first area, we have put in place a national plan for enhancing the application of trade agreements, and in the second we have solved through dialogue and consultation several trade problems. And when this avenue has not been successful, we have moved to activate the dispute settlement procedures in the WTO, and we have one pending case at this time. Alignment of some of our domestic policies for international obligations has also taken place.

Finally in the third pillar of our agenda, we are taking steps to maximize the potential of the trade platform by expanding the number of beneficiaries and by focusing on enhancing competitiveness. In the first case, we have in place very strong programs of export promotion and investment attraction which have rendered very important results not only in terms of an increase in exports which, for instance, have increased five-fold during the past 20 years, but also in terms of export diversification -- we export over 4,000 different products to almost 150 countries in the world -- but also in terms of export sophistication. You may know, for instance, that Costa Rica exports sulfur for landing planes or hard balls that are manufactured from animal tissue or 90 percent of Intel microprocessors for servers or that Intel has a 300 engineering center, 300 engineers in a center for engineering and research in Costa Rica.

We have also seen an increase of our participation in global value chains; 43 percent of our trade today is related to participation in one of five key global value chains. We have seen an increase in participation of small- and medium-size enterprises in our exports. We've also continued to be very strong in terms of attracting investment in advanced manufacturing, life sciences, services that go well beyond the call centers, but are more in the shared services centers, engineering centers. We have at this time about 200 leading, world-class, multinationals doing business in Costa Rica and others.

Now in the second area in the terms of competitiveness, we have taken significant steps to further enhance our investment climate. And I won't go into a lot of detail on this because I know Roberto will refer to some of them, but I'd just like to mention that we're working on improving our port and airport facilities, opening as I said -- including the opening of the telecom and insurance markets, policies to duplicate broadband penetration, strengthening and aligning our education programs, rewriting our free trade settlement regime, and others.

This is, of course, a very busy agenda, but it's one that I believe is very important not only for Costa Rica, but for Central American countries to continue generating opportunities for growth for their people. Thank you, Richard.

MR. FEINEBERG: Well, thank you very, very much. That was really an exciting presentation, to see how with competence and vision a country can insert itself into global markets with such dynamism and success. And I think I can say really in all honesty that part of this is Costa Rica, a very competent and forward-looking country, but also individuals matter in history, and Anabel González has played a very critical role in the trade policy that she has just described. So I congratulate you for your labors.

MS. GONZÁLEZ: Thank you.

MR. FEINEBERG: Your last remark was also a very good lead-in to our next speaker, Roberto Artavia -- Roberto, who you'll shortly see, is an excellent speaker. I've heard him on a number of occasions.

He was for many years the outstanding and very visible rector at INCAE, a business school that under his leadership, I believe, made it into the top 100 MBA programs worldwide, according to the *Financial Times*, quite a spectacular achievement. INCAE, of course, is not located in Pennsylvania as was suggested, I think, in one of the handouts, but, of course, in Costa Rica.

In addition to being a leading academic leader, Roberto is an expert on competitiveness strategy, so we're very much looking forward to his remarks. Roberto Artavia, please.

MR. ARTAVIA: Thanks, Richard. I was just thinking that I'm going to need the longest 10 minutes in the history to get through this, but I'll do my best.

I tend to look at the process of Central American trade as a lifecycle that in my case started in 1982. As a matter of fact, I started working as a researcher for the CVI launching in Central America in 1983. And the idea was that we were going to work in import substitution in moving Central America from import substitution and industrialization in the Common Market to export promotion. Then we went through the structural adjustment process proposed by the World Bank, the IMF, and the unilateral reduction of tariffs in the early '90s. So in a sense, Central America opened to trade unilaterally in the early '90s. In 1994 we participated with CABEL, another institution, in relaunching the Central American integration process. And at this point, I should say that by this time we already had 10 years of work in Costa Rica in this agenda. And I remember explicitly in 1993 being called by Fusales at INCAE to help launch the first export promotion and the recertification process in El Salvador. I actually received a

similar call in early 1997 from President Arzú and Richard Adkin who was in Guatemala to help launch the first such process in Guatemala after they signed the peace treaties, the peace agreements, in December of '96.

So when I say that I tend to look at this as a lifecycle, it's a lifecycle in which countries are at different points of maturity. And in the case of Nicaragua, of course, I would say that the process is almost -- I would say recently started. And it's not that they did not join the effort in the '90s, but frankly it only took off when CAFTA became an issue in the government of Enrique Bolaños in the early 2000s.

In the case of Honduras, the process has always been different for two reasons. First of all, Honduras took distance from Central America after 1969 in terms of the Central American Economic Integration Process, and secondly it launched its own maquila effort in the late '80s and with very good results. As a matter of fact, I always say that the San Pedro Sula crowd is probably the real cradle of textile maquila and particularly of value-added textile maquila in Central America.

So this is kind of a complicated history, and I will try to focus on two things: The questions we were given were, what can Central America do to take better advantage of CAFTA? And what can the U.S. do? Let me try to answer the second question first. I am a product of USAID in Central America. I actually got my doctorate at Harvard funded by the U.S. Department of Agriculture. I actually went to a number of programs, and I taught more than 600 seminars -- I'm not exaggerating -- before 1984 and 2000 in Central America related to export promotion, value-added, agribusiness management, and what have you. In a sense, Costa Rica has a 30-year-old generation - - not that I'm 30, I'm 50, but I started 30 years ago -- a 30-year-old generation which has already been working in this agenda and it's a product of U.S. help. Unfortunately, at the time that Costa Rica was getting money for these training programs to create SNDA, the

investment promotion agency to create programs at INCAE for export management and so on, they were also funding wars in El Salvador, Guatemala, the Contras out of Honduras into Nicaragua. And, therefore, this set these countries back a number of years in starting with this agenda. And the generation, the equivalent generation, to the one to which Anabel and I belong in Costa Rica, technocrats of trade, technocrats that cater out to this agenda in depth, is only now 10, maybe 15 years in the best of cases in the rest of the region. So there is a difference in where we sit in the lifecycle in that.

The other thing that needs to be understood is that Costa Rica was able to channel the funds received in the '80s to the diversification of exports. It is now -- it sounds almost irrelevant, but at the time we were talking about the flowers, ornamental plants, strawberries, fish, a very I would say first-stage diversification of exports, but which very quickly led into what we have now, which is a full-fledged diversification of exports in which services and very high value-added services are taking place in Costa Rica. Now again, this is a 30-year agenda. We have had time to prepare human capital to take advantage of that. We have had time to actually invest in institutions in creating a trade platform which is unique to the region in order to take advantage of that. And that platform was in great part funded initially in the 1980s and partly in the early '90s by U.S. help. Since then we graduated from USAID support, but at the same time we already had our own technocratic class and our own internal capacities to continue building on that.

When you go to the rest of Central America, you have to understand two things. First of all, the human capital investment is not there yet. Richard was saying and David was talking about call centers in the region. The fact is that even in Costa Rica, less than 11 percent of the population would be able to work in a call center because of language skills. And in the rest of Central America, that is less than 4

percent. So that is not really an option. Even repatriated immigrants do not have enough knowledge of the language to actually provide high value-added services in this situation. In the case of Costa Rica, I always used as an example, and I don't know if this operation is there anymore, but once I was invited to a call center that was actually managing the Municipality of Hartford, Connecticut's 800 number in Patos, Costa Rica. If you dial the 800 number of the Hartford, Connecticut, capital, they answered you in San José of Costa Rica, and they provided all the services needed to --

MR. FEINEBERG: So maybe INCAE really is in Pennsylvania.

MR. ARTAVIA: More or less, but in any case what I want to get to in making this statement is that we are still very far away from having human capital with the necessary skills in the Central American workforce to really aspire to creating value-added positions, much less thinking of things that require innovation, scientific content, or other levels of knowledge. And when I talk about other levels of knowledge, I'm not here talking about hard science. I'm talking about things as essential as fundamental marketing and quality products. One thing that we need to be very careful with the recent growth of exports and trade from Central America is that we're in a period of one, world economic recovery; second, high-commodity prices. So we can create a mirage of what is actually happening in the region. And again, I would have to say that when I look at the exports of Costa Rica -- and you heard Anabel's numbers; Costa Rica's actually about 30 percent of total regional exports, I feel very confident that diversification and a strong structural change has taken place. When I go to the rest of the region, we're still looking at some value-added things, for example, (Spanish) are good examples of sugar cane value-added and there are a hundred different brands of coffee, but they still represent only a small fraction of total exports. And these countries are still exporting commodity-based production, number one, with high prices and, therefore, the growth;

and secondly, when you go to the maquila sectors, the drawback sectors, it is still the lowest skilled maquila for the most part.

So when we think about what Central America needs to do in order to take advantage of CAFTA, I would have to say the following: When you look at the numbers -- and I'm just going to use World Economic Forum numbers to make this easy - - you look at what are the three key weaknesses of the Central American nations. And as it turns out, the lowest ranking for El Salvador, Guatemala, and Honduras, are institutions, education, higher education in particular, and innovation. Therefore, I really do not see how this diversification and value-added proposition are going to take place unless we first make very significant investments in creating a basic institutional platform, creating the human capital we need to add to value, and out of that hopefully enter into business sophistication and innovation as needed.

When you look at Costa Rica, the weaknesses are infrastructure, and again, human capital, believe it or not. Even Costa Rica, which is so far ahead in this curve, when we compare ourselves with our new competitors -- new competitors like Ireland, Israel, South Korea, Malaysia, Thailand -- we simply do not have the human resources to really compete in high-level manufacturing unless we focus very specifically as we are doing in very specific investments which already have a cluster of structures. And that because of our small scale as a country, allow us to achieve relatively high growth. We are really capturing a large world-market share in those industries, but the fact is that there are very serious constraints in that.

On the other hand, I always say, even though Costa Rica has a hard time making and implementing decisions, it is always a lot easier when it's brick and mortar, building a port or building an airport, than when it goes to building human capital which basically takes at least one and a half full generations to create a real change in the

capacities of a country. So even if we started today building that human capital -- we're talking about the northern triangle of Central America and Nicaragua in particular -- are probably between 13 and 20 years away from having the type of human capital they need to enter the real value-added and service-diversification type of export economy that we ought to be looking at.

One additional comment: When I think about what you need to enhance trade, I always think of three things. One is access, and of course, that means free trade agreements, open borders, two-way trade. Remember always that trade is odd, not only about exports, but also about imports. And when we talk about imports, one thing that the Central Americans have not been good at doing is of letting go of the past. We're very protective of our traditional agricultural sectors. We're very protective of some traditional manufacturing, which we still insist in protecting, instead of actually allowing for resources to be redistributed within the economy to those things in which we can be globally competitive and allowing the rest of the world to supply us with those things in which we cannot compete. So we need really to start thinking about trade as a two-way highway and not only as an export platform because it is not that. It is supposed to be about two-way trade, and this is an important element.

Secondly, I think that one of the great ways to enhance your productivity and your export and trade growth in general is through foreign direct investment. And when you do foreign direct investment in Central America, unfortunately you again concentrate in Costa Rica and Panama. And when you look to the north and you look at the institutional framework, you look at the violins, you look at the human capital, you look at the productivity curves that they can achieve, it is simply not there yet for the new type of companies that we are ought to be attracting. And when I think new type of companies, think about Cambodia, think about Malaysia, think about Indonesia, think

about Vietnam, which we will be competing with for the low-end manufacturing sectors. And simply we'll not have the productivity levels to achieve that. And, therefore, the foreign direct investment attraction capacity needs to be improved and that means that we have to deal with the violins. We have to deal with the institutions. We have to create the capacity in human capital to do this.

And finally, when you look at Central American integration, somehow we always talk about the institutions. And, of course, we say CABEL is one of the good one, and it has proven that over time. And I can mention two or three others which do fairly well and others that don't do so well and so one. But really integration is about business. It's about economics. And Central American integration took place a long time ago. Central American integration took place in the hands of entrepreneurs and when you look about our countries, in every one of the Central American countries the number one, two, or three trade partner in the world is another Central American country. In the case of Costa Rica, we are top three in all the other countries. In the case of Guatemala, Guatemala is top three in all the other countries both in terms of trade and investment. And, therefore, I would have to say we do have to work in completing the political process of integration, but most importantly, we need to reduce the transactional costs within the region so that actual investment and trade can take place in the best possible conditions. I will stop there.

MR. FEINEBERG: Thank you very much, Roberto. Giving us that deep historical perspective, but also to bringing us back to the role of the public sector and ultimately to the issue of fiscal policy really because if you don't have states that tax and have sufficient resources, they can't educate the population, they can't build the infrastructure, et cetera, which was I would argue a central theme of the first panel. The first panel dealt with security issues, but we always come back to the role of the state.

Are citizens prepared to pay sufficient taxes? Are they prepared to give the state the resources necessary to provide the minimal basic conditions for successful private-sector economic activity? And I think it's a unified theme.

The issue of fiscal policy, by the way, is front and center now on a worldwide basis. Because by and large we've had a lot of success in reducing trade barriers, in stabilizing our economies, and now it's fiscal policy. For example, the IMF now publishes a *Fiscal Monitor* as a new publication to keep the focus worldwide on the issue of taxation and expenditures, very relevant to this discussion here.

Okay, we have about 15 minutes or so for a Q&A. I think what I'll do is I'll open it up and we'll take a couple or several questions and then we'll bundle those and then we'll open it up to the panelists here. If you would state your name and affiliation into the microphone that will be brought to you in a second, that would be terrific.

MR. ALDONAS: Grant Aldonas with Split Rock International. Wonderful presentations; very thoughtful. What struck me was there was a pretty sharp distinction, though. What Miriam was doing was a litany and not actually focused on Central America. And it wasn't informed by the sorts of things I was hearing from Anabel and Roberto, which is consistent with the way trade now operates. It's less about the barriers at the border and much more about driving down uncertainty risks and transaction costs, particularly information barriers for the smaller players so that they can find a way into a global supply chain. And so my question really is how do you construct a dialogue between the United States and its Central American partners if there isn't that shared vision or, frankly on the U.S. side, a vision at all that's consistent with the way trade actually operates at this point? Because what I heard Miriam talking about was a very conventional approach to trade, and to trade and development implicitly, and an absence actually of recognizing what's driving change on the ground along the lines that Roberto

was talking about, integration already having taken place because of what entrepreneurs are doing. So my question really is how to construct a balance?

MR. FEINEBERG: Thanks, Grant. Grant, I should point out, has played a very important role in U.S. policy from the Department of Commerce and has a recent book out. What's the title?

MR. ALDONAS: *Globalization of the American Worker*.

MR. FEINEBERG: *Globalization of the American Worker*. I recommend it to everyone here. Yes?

MR. SHOO: Hi. I don't know if I need to stand up or not. My name is Matt Shoo. I'm from *Inside U.S. Trade*. I just wanted to go back to something that was only touched upon briefly, which is the Guatemala -- escalation of this Guatemala labor complaint that was announced by USTR this week. And I wanted to ask the USTR official why the U.S. waited until now to take this step of going to the Free Trade Commission when the last round of consultations from what I understand was held in December. Just wondering about the timing and whether there's a link with the President's trade agenda right now in Congress and whether this step is meant to provide cover for the Colombia free trade agreement by showing members of Congress and U.S. labor who raised concerns about the Colombia FTA that the U.S. will aggressively protect labor rights when that FTA goes into effect. Thanks.

MR. FEINEBERG: Okay, thank you very much. Thank you. Yes, ma'am?

MS. BUNSE: Thank you. My name is Simone Bunse, and I'm faculty at Georgetown --

MR. FEINEBERG: Can you stand up, please?

MS. BUNSE: My name's Simone Bunse. I'm faculty at Georgetown University. I previously taught at the INCAE. Thank you very much for this comprehensive picture. I think we've heard a relatively rosy picture with regard to Costa Rica despite some of the challenges, and not quite a rosy picture with regard to some of the other countries. What I'm missing a little bit is were there any unintended consequences or could you expand on some of the unintended consequences?

MR. FEINEBERG: Either good or bad, yeah. And finally Nick, please?

SPEAKER: Do I have to stand up?

MR. FEINEBERG: For you it's optional.

SPEAKER: Yes, I have one question for Roberto. With regards to -- you know, it was clear to me that -- it must have been the Cuban capital is critical. And my question refers to whether there are shortcuts, and specifically thinking about something that has been suggested in Honduras, the adoption of the so-called charter cities, whether that is a possible shortcut?

MR. FEINEBERG: Right. Thanks very much. Why don't we -- each panelist can respond to whichever questions they care to. David?

MR. LEWIS: None was addressed to me specifically, but I do think it is important to point out -- you know, when I landed in Managua 25 years ago and lived there for about 10 years, working throughout the region, on average it took you 4 to 8 hours to go by land to any country, and I was traveling on an international mission, diplomatic status. Today, as a result of what's happened, you can go in one hour. Most of that blockage people wanted to tell you was because of security and the war on the Contras. It wasn't. It was because of slow customs procedures. It was because of protectionism in each country. Walmart, Procter & Gamble, all these companies, they now think of Managua, Central America. In business terms, there is no Managua,

Nicaragua, anymore. Now I know the Minister would love to sit and tell you that was our plan, but it wasn't. That was the unintended consequence. Nobody, even all the studies of INCAE, none of us thought it was going to happen so quickly and so rapidly, but that is the force of capital because when Walmart, Procter & Gamble, and all of them came in, they said "you know what?" Managua, Nicaragua, doesn't work for us anymore. If it isn't Managua, Central America, we're just going to go somewhere else, and that's really what's made it consolidate. So I think it's very important to think of that and to realize that 20 years ago we were all shooting each other in Central America. This is not even one generation. So, it's not rosy. No, it's the reality. Now I know in Washington, that's a bad word, but that's what it is. It's not rosy. That's what happened. And it's been transformed and it wasn't what anybody was thinking with CAFTA-DR. It's just -- things just took on a life of their own and that's what happens when you integrate business into the process. And I think that's really important.

I wanted to mention on the security point this morning, we couldn't deal with it. What's really missing I think now is, businesses in Central America and the U.S. and elsewhere are not engaged partners in this security dialogue. That is why we are privatizing business. If we're not part of the dialogue, we're just going to privatize business for ourselves. That's how they started with T-shirts 25 years ago. You had security in each of your plants. That's the only way U.S. Customs would let you ship in a container, if somebody locked it there and secured it. If that doesn't happen, that security weakest link is going to become the entire chain because it can destroy everything.

And just one point on Costa Rica, yes we have discussed it. I was just with a major U.S. energy company, taking them throughout not only Central America and the Caribbean, but also South America. And for them, Puerto Rico, it's part of the United States. It's my home country, but they still view it Caribbean Latin America. And you

know what they would tell me? You know what? Despite their 5 years of a recession and everything, there's a difference because these people here in Puerto Rico, haven't been part of the United States, have 60 years of infrastructure, human capital investment, education, civics, and so on, which still makes it more attractive for me to say this is the cutting edge. So yes, that -- it's only been 20 or 30 years for it. It took other countries a couple hundred, so I still look at it and still think back. It used to take me 8 hours to go from Managua to Peñas Blancas, not even San José, Peñas Blancas. So one hour now - - hey, in business terms, that's money hand over fist.

MR. FEINEBERG: That's progress, that's real progress. And I'm glad you --

MR. ARTAVIA: David, tell me where they're riding because I go to Managua by land every other week more or less. My wife is in Calabron, and it takes me 7.5 hours. So tell me --

MR. LEWIS: No, but not at the border.

MR. FEINEBERG: Okay, so there's still room for improvement.

MR. LEWIS: Not at the border room for improvement.

MR. FEINEBERG: But David, I'm very glad you emphasized the issue of public-private relations because I think that's been a struggle in a number of Central American countries historically, and there's still room for a lot of progress there in the security area as elsewhere. Anabel?

MS. GONZÁLEZ: I'd like to address Grant's question as to how to construct a dialogue between Central America and the U.S. And I think it's alongside concrete projects. I think that's probably the best way to go. And I am very excited about the Trade Facilitation Initiative because I have seen a very positive response both by the U.S. and Central American and DR governments, but also by the private sector in all

countries. So I think that this Trade Facilitation Initiative will be something that will reenergize CAFTA, but will also serve to continue building a stronger dialogue between Central America and the U.S.

And I'd also like to tackle the question from Simone about unintended consequences. I'd say that I see two positive consequences of the Costa Rican process, not necessarily the CAFTA itself, but rather the process, the very long, excruciating, and painful process that Costa Rica went through in order to approve CAFTA. And one is very interesting, which is very broad support for the liberalization of the telecom market. This was the main reason why CAFTA was subject to a referendum in Costa Rica. Nevertheless, today latest polls show that 50 percent of Costa Ricans say that they will move to a private mobile operator when they begin operations by the end of the year. They don't even know what the plans are going to be, what the rates are going to be, 50 percent of them are saying "I'm going to move."

A second unintended consequence is that I think that the support for free trade in Costa Rica has consolidated significantly. And I put this example: The free trade agreement with China was approved in our Congress in March by a vote of 52 -- ah, 42 legislators in favor of the FTA and 11 against. And I'd like to see any country in the world approving an FTA with China with those kinds of numbers. So I think that's another unintended consequence of the process.

MR. FEINEBERG: Very interesting, and I interested to hear you raise the idea of Costa Rican membership in APEC. And as you know, the United States is hosting APEC this year, so President Obama will be hosting 21 leaders from around the Asia-Pacific in Honolulu in November and --

MS. GONZÁLEZ: Yes, and we would like to be invited as a service to the meeting.

MR. FEINEBERG: I think your timing is excellent for putting that idea on the table. Roberto, please?

MR. ARTAVIA: I would like to answer three questions, and one is the unintended consequence. And I just want to mention one thing; David already started talking about this and Anabel maybe mentioned it if I understood right, but it's the concentration of corporate Central America in foreign hands. What we have seen -- what we had in Central America in the '90s and early 2000s was fundamentally regional entrepreneurship in many industries, and now international giants have come in and taken over. This to give you a couple of figures, if you go grocery shopping in Central America, there is a 71 percent chance that you will be buying from Walmart today, and that's just too much concentration for me. We used to have many small banks -- and I'm not saying that's good -- but many local and regional banks in place. Now we have CitiBank HSBC and with the exception of Costa Rica with the nationalized banking system, that's it. That's banking in Central America for the most part, and the remaining local banks are backed which is now Colombian bought, so fundamentally this concentration of the large business has been an unintended consequence that was accelerated because of the greater safety provided by the agreement.

One thing about dialogue, and I'm going to give you three names which probably won't mean much to most of you, but I'm going to mention Dan Shike, Aaron Williams, and Kevin Kelly. These were USAID officers in the early 2000s in Central America -- in the early '80s in Central America -- and they were on the ground. They were talking to the leaders. They were talking to the politicians. They were completely engaged in the development process in the region. It was not a Washington-based agenda implemented in Central America. It was an American, U.S.-Central American agenda generated by regional experts which were in the field present there, not based on

theory, based on the reality of the region. And I think that if we're going to have a constructive dialogue with Washington, a lot of that has to take place again.

Finally, to charter cities. I'm an admirer of Professor Romer, and I have read his work intensely. I don't know if you're aware of what a charter city is, but fundamentally they're talking about Singapore, they're talking about Hong Kong, which are cities that have special conditions. They were, you know -- Hong Kong remained Chinese. It was what is at least to the U.K. under special conditions, and therefore, they created an independent economy with a constitution and trade conditions and investment conditions of its own. Honduras is thinking about experimenting with a charter city in its northern coast, and it has been mentioned to both the San Pedro-Puerto Cortez axis access order the Bay Islands as the possible sites for this charter city project. I just don't see it. Frankly, unless there was a completely unexpected social and constitutional change in Honduras, I just don't see it happening anytime soon. Having said that, I do believe that the creation of productivity and performance islands within the country is fundamental for the process of development. The Zonas de Procesamiento Industrial of the original Honduran effort were perfect -- are a perfect example of the value of these islands in the process of transforming the economies one step at a time.

MR. FEINEBERG: Thank you, Roberto. Now finally, Andrea Malito, who is the Director for Central America and the Dominican Republic at USTR. Andrea?

MS. MALITO: Thank you. I'd also like to address Grant's question about dialogue between the United States and Central America. And with the agreement, we have a whole series of avenues for dialogue. There is the -- of course, under the agreement, the governments have an opportunity to talk about a whole series of things. Under the specific working groups, we have ways where we've shared a great deal of technical assistance, expertise in trying to develop approaches to various issues, and

those are the traditional mechanisms. Beyond that, of course, as Minister Gonzalez mentioned, the trade facilitation proposal is one that we also have a great deal of expectation of progress in.

There is -- when it comes to integration, we've talked here about the importance of integration, the fact that in Central America perhaps the private sector, the entrepreneurs, have already established that to some extent, but in integration there are really two roles. There's the private sector, what they've accomplished. Entrepreneurs will always be creative and find ways around challenges. There's also a very important role of the private sector to be played. The private -- I'm sorry -- a very important role of the government to play in policymaking, in establishing the policies that will promote integration, that will encourage competition, that will allow for trade to move freely to establish the policies that will encourage and enable the private sector, the entrepreneurs, to improve the trade situation and to establish the competitiveness.

And part of that is the idea behind the trade facilitation project because in the various different areas that we've identified where work is already underway among countries to help address some of the challenges that we're facing in trade. As the Minister mentioned in customs areas, in various other cross-border standards, areas of supply chains, we are looking at some of the activity that's underway, exploring some of the best practices that have already been identified, and through that and through a process of consulting with the private sector with those who have found the ways around the challenges, looking to them to help us, to help the governments, establish those policies that will further enhance integration, that will further enhance competitiveness.

So we are looking to dialogue on various different levels. Our governments with our private sectors, with the stakeholders, and among the governments, and among the private sectors and the governments all collectively. And

that we believe is a way that we can all work together to help enhance the trade and improve the economic development and progress in the region.

MR. FEINEBERG: Okay. I want to very much thank our panelists. I think it's been very, very stimulating and informative. I can sense that we could go on for a lot longer. I mean, look at how alert and interested everybody looks -- more alert and alive right now than when we began our panel discussion. So for that I thank David, Anabel, Roberto, and Andrea. Thank you very much.

Now, I understand that President Laura Chinchilla has arrived, and she will very shortly be giving an address right here. We will take a very short recess. For those of you who need headsets -- I guess by that it means that she'll be speaking in Spanish. Those of you who need headsets, they're available outside, just outside. You can pick them up outside, and then we'll be readjourning very shortly.

(Recess)

MR. TALBOTT: Good afternoon, everybody. I'm Strobe Talbott, and it's my great pleasure to thank all of you for being here this morning for what has been an extraordinarily good conference, and I would like to thank President Rischbieth of CABI for the support that made this morning's very good discussion possible.

It is now my special honor to welcome President Chinchilla here to the Brookings Institution and, I'm glad to say, not for the first time. She was here a couple of years ago as a candidate for the presidency of her country, and it's always nice to welcome back a candidate who won, by a landslide election, the leadership of one of the most important and admirable countries of our hemisphere.

As I think everybody in this room fully appreciates, and certainly all the citizens of Costa Rica appreciate, our guest of honor this afternoon leads a country that is renowned not just in this hemisphere but around the world for having institutionalized the

very best values and the very highest standards of good governance -- genuine, deeply, deeply felt democracy, civil society, accountability, stewardship of the environment, and of course a readiness always to advance the cause of regional peace and reconciliation.

Costa Rica stands for human rights in the widest and deepest sense of that phrase, so it was particularly pleasant and fun, if I may put it that way, to be in the room just a couple of doors down from here when she got the news from her colleagues that Costa Rica has been voted as a member of the Human Rights Council of the United Nations just a couple of hours ago.

So, a round of applause to you and your country. (Applause)

President Chinchilla is an expert on another issue of vital national and global importance, and that is protecting the security of all citizens in a country and ensuring genuine and equitable rule of law. She was renowned for precisely her advancement of that cause when she was Minister of Public Security, and she is also an author of several books on the issue of how to deal with criminality and how to improve the system of justice in her country. As president, she has vigorously promoted tax reform with a heavy emphasis on transparency and fairness.

I find it particularly significant and appropriate that all of these issues, which we associate so much with President Chinchilla, are also issues that Secretary of State Hillary Clinton feels about deeply, and several of us in this room had a chance to hear Secretary Clinton on that subject earlier this week when she met over a two-hour working dinner with six former Latin American presidents on Wednesday evening. That event was organized by the Brookings Institution's Latin America Initiative, which is so ably led by my friend and colleague Mauricio Cárdenes and enriched by the presence here at the Brookings Institution as part of the Latin America Initiative and as a Senior Fellow, Kevin Casas-Zamora who, of course, is your former cabinet colleague, Madam

President.

Now, the president is no stranger to Washington, D.C. She has a master's degree in public policy from Georgetown University, and she will be giving a commencement speech at Georgetown tomorrow. In fact, she gave me a brief preview of that speech, and I would love to be able to attend it myself. She's going to be talking about the importance of values and particularly those values I mentioned earlier that have been the basis for Costa Rica's extraordinary legacy and example that it is setting to so many other countries.

But now she is going to talk to us about Central America's challenges and opportunities. She is going to be giving her speech in a language that she has long since mastered, a little more than me apparently, and that is English. And then when Mauricio comes up to lead all of us in a discussion with the president, she will be speaking in Spanish. So, those of you who are not comfortable in the most widely spoken language in all of the Americas, we will have on your seats available devices so that you can listen to simultaneous interpretation.

But now, Madam President, I would offer the microphone to you, and once again thank you for gracing the Brookings Institution this afternoon.

PRESIDENT CHINCHILLA: Good morning. Good afternoon, I should say. Thank you very much, Mr. Talbott, for this very warm welcome to me and my delegation.

I would also like to thank the Brookings Institution for this invitation to me with a very select group of people interested in Costa Rica and in general in Central America. This institution's prestige rests on the critical role it plays in conducting high-quality, independent research leading to innovative proposals in order to secure a safer, more prosperous, and more cooperative international system.

I also want to thank the Central America Integration Bank for the support they gave to this activity.

I am especially glad to share this time with new and old friends, including Kevin Casas-Zamora, Senior Fellow, Foreign Policy, Latin American Initiative, and former vice president and minister of planning of Costa Rica and a very good friend of mine.

I am here basically to share with you some thoughts about how Costa Rica has become and continues to be a leader in Latin America in democracy, human development, and environment. I am also here to discuss some of the most important challenges we as a country face ahead. I know you have been focusing during the morning on Central America as a region. I'm going to be more concentrated on Costa Rica, but of course I'm going to put it in the context of the Central America situation, and I will be glad to talk a little bit more about Central America during the question period.

Let me start by saying that we Costa Ricans have always believed in achieving prosperity, true peace, freedom, and rule of law. That is a major national understanding and to history we have taken decisions to follow and reaffirm our beliefs. We believed in an armed democracy, and here we are 60 years after we decided to abolish the army to ensure stability and devote more resources to education, health, and development in general.

We believed in sustainable development, and here we are 30 years after we decided to preserve 25 percent of our land and became the first country in protecting the environment in the Americas and the fifth in the world.

We believed in prosperity, and here we are proceeded by 20 years of constant economic growth thanks to wise international reforms and our opening to the international economy.

And, most importantly, we believed in human development, and here we

are with an extended educational system and health indicators that are even better than those of some countries in the developed world.

At the same time, Costa Rica has not been exempted from the impacts of the international economic crisis experience during the last three years. However, thanks to our economic transformation and diversification, we were less vulnerable to the effects of the crisis. Therefore, we continue focusing on prosperity for all sectors of the economy. In fact, considering Costa Rica's receding in the economy during these trying times, the rating agency, Moody's, last year upgraded Costa Rica to investment grade.

Since 2000, our GDP has multiplied by more than 2. Our foreign direct investment has increased more than three times, and our exports have doubled. Moreover, we have successfully diversified our export base right now. We can probably say that we export over 4,000 different products to almost 150 countries around the world. Today we are a diverse high tech exporter in Latin America and the first per capita exporter of known network resource products in the region.

Looking back to our legacy as a country, reflecting on Costa Rica's full potential and looking ahead to the policies and initiatives my administrations want to implement, I envision that Costa Rica can continue leading the way in Latin America and beyond. We intend to continue implementing the right policies in sustainable development. Today more than 90 percent of our energy comes from renewable sources. We are determined to become one of the first carbon neutral countries. We want to prove to the world that economic development and environmental protection can go hand in hand.

But foremost we're focusing on implementing the right policies to become one of the first developed countries in Latin America. With this in mind, Costa Rica will continue its part toward a prosperous and sustainable development led by

innovation, science, and technology. We will lead this way through our continued focus on education. It has been a long-time commitment. 140 years ago Costa Rica decided to provide free access to primary education to all its children. This investment has paid off. Today we'll spend 7 percent of GDP in public education. At the same time, we have been working on a number of initiatives that will enhance not only the quality but the quantity of our educated and well-trained population.

In order to accomplish our goals, my administration will continue to strengthen our social policies and our competitiveness environment. We have already achieved significant milestones that have expanded the high school technical education: an ambitious investment business plan for infrastructure; developing one of the most important container terminals in the Caribbean Sea; modernizing the telecom sector; promoting a sound and novelty digital agenda; focusing on enhancing our electricity generation capacity; and streamlining regulatory procedures.

And here is where our trade and investment initiatives come into place. More than at any other time, it is clear to us the nations are interdependent. Thus, Costa Rica will continue improving the solid foreign investment and trade platform that it has managed to build during the last 20 years. Today our country has a dozen free-trade agreements that grant our products preferential access to the largest world markets, including the United States, European Union, and China.

From Costa Rica you can access 2.3 billion people, about 70 percent of worldwide GDP, making Costa Rica's export platform an ideal one for both services and manufacturing operations. CAFTA in particular has been a success story, consolidating our access to the American market are leveling the playing field for U.S. exporters to the region.

The results are clear. Despite the economic slowdown, total trade

among participating countries increased from \$35 billion prior to the implementation of the agreement to \$48 billion in 2010. In the case of Costa Rica, total trade with the United States increased from about \$10 billion in 2008 to \$14 billion in 2010. We rank No. 3 as recipients of foreign direct investment per capita in Latin America. In the last 10 years, foreign direct investment flows to Costa Rica have increased more than threefold. On average during this decade, such flows have represented more than 6 percent of our country's GDP. More than 200 of the leading companies and services of the best manufacturing, our life sciences among others, have made Costa Rica their home.

But still we want more, because we recognize that exports and investment are crucial for economic growth, integration of new business ventures, jobs, and novelty production in Costa Rica. This is why Costa Rica continues to bolster above.

Finally, I must refer to the issue of public safety, a vital element in maintaining economic growth and social stability. As you must know, Latin America is the most violent continent in the world, measured by average homicide rates. We, in Costa Rica, are aware that we currently face challenges in erasing criminality and drug-related violence. But we are working very hard to address this problem and contain it.

We are confronting drugs on a lesser scale. Similar challenges of combating drug trafficking, illegal guns, and money laundering that are being faced by Mexico, all of Central America, Colombia, the Caribbean, and that is spreading throughout South America and all around the world. Because of the geography of this situation, would Central America lie in, to the north of Colombia and to the south of Mexico. It is ironic that the more successful these countries are at clamping on the drug lords, the more spillover we get.

In this battle we have our strengths in our structured judicial system, a

transparent institutional framework, and educated population, and education for community-based solutions. But we also have our shortcomings --a police force in need of upgrading and provisionalization, and a lack of funds for the material support that is necessary for the detection, intervention, and detention.

Costa Rica is fighting this battle on two levels, both local and international. At home we are working on a wide spectrum of policies and programs aimed at achieving the right balance between repression and prevention, building up institutional capabilities in the state, the private sector, and the community and increasing funding through tax reform.

The order level of the battle against drugs is international. The cycle of drugs, guns, violence, and money laundering is a chain of cross-border crimes. What is needed is a constructive effort on behalf of the whole region, involving coordinated intelligence and logistics in every country and including a fundamental change in policies that will reduce demand and control and regulate all transactions related to the drug trade.

Combating crime, especially organized crime, is attacks of intelligence more than a force. This is the first challenge facing our countries. Our security agencies must collect the news information intelligently in order to prevent this serious problem from occurring in the first place. In Central America we are embarked on an effort to confront this problem on a regional basis. There, too, we face institutional and political challenges complicated by surprising diversity in capabilities that is displayed by this group of small countries. But we are doing all we can to help in the development of a regional strategy.

The government of Costa Rica is aware that we cannot fight alone against these threats to our national security. Cooperation with technical and financial

support and its efficient use are basic to sustaining a regional strategy against organized crime, probably the most significant threat to the social and political stability of Central America.

Having said that, Costa Rica continues to be one of the three safest nations in Latin America, and we want to keep it that way. For many years, Costa Rica has been recognized not just for its historic democratic stability but for its peaceful and safe environment. We are gearing up all our resources to keep it that way.

Ladies and gentlemen, we're conscious of the challenges that lie ahead, but at the same time we are convinced that Costa Rica has the fundamental requirements for excelling in the region and in the world. Clever and innovative people; a stable, political system based on respect for the rule of law; sound, economic policies; and ideal geographical position and strong social network; and a deep respect toward our environment. We truly believe that by keeping our commitment to the values that supported the building of our nation, Costa Rica is on the right path to successful development. We want to keep building a good future.

We know our friendship and alliance with the United States is a key to that future. We will seek keeping more solid and closer ties with this country, its business community, its academic community, and all of these people in the years to come.

Thank you very much.

MR. CÁRDENAS: So, with your permission, we're going to do this part in Spanish. I hope that's alright with everyone in the audience. If not, as Strobe Talbott just mentioned, we have simultaneous interpretation. Just raise your hand and they'll come to you with equipment.

MR. CÁRDENAS: Well, I should say, Madam President, that with your high quality image (off mike)

Let's change to English.

MR. CÁRDENAS: Let's change to English. Can you hear in English?

Okay.

Thank you, Madam President, for your remarks. That adds a lot to the conversation we had in the morning that as I said is a conversation that seeks, most of all, to position Central America in the Washington agenda and especially within the administration and the Congress.

Central America is a very relevant topic that attracts more attention every day because of its complexities and challenges and so your presentation shows that there is a good understanding of how to do things in Central America, and it is an admirable republic as a showcase.

We are now opening the floor for everyone to ask questions. Please be brief, introduce yourselves to get the information. This is being recorded. We are now open to questions and comments.

MS. COSTINELLEDA: I'm Diana Costinelleda. I'd like to ask the president -- she was talking about tax reform in Costa Rica to try to collect funds to fight organized crime in Central America in the corridor between Mexico and Colombia. Are you taking other measures in case this does not get passed in Congress?

PRESIDENT CHINCHILLA: Which reform did you mention?

MS. COSTINELLEDA: Tax reform.

PRESIDENT CHINCHILLA: Oh, the tax reform, okay.

We can't pick and choose when you have a taxation system. You either cut or collect. At the end of the day you have to do both and you seek more efficiency in the public sector and from that point of view we're doing our best to do more with less, and we are sending a message of austerity to the population of Costa Rica at this

junction.

I also recognize that public expenditure is quite rigid. Most of the resources are committed to salaries, pensions, and service in the debt. So, little is left, so we don't want to sacrifice infrastructure investment or social investment. That is a big mistake countries make when they do that and they create debt in the long term.

So, we favor strongly our tax reform. It is not easy for any country, and that tests the political system, the maturity of the political actors, and the ability to negotiate and to face corporations and unions and their interests. They will have to give in to the social pact that is being built, and the discussion is not easy. I have to recognize that the political dialogue is quite robust.

There are more political parties that are surfacing, and the actors are numerous and the dialogue becomes more complex, and we are insisting on a new phase we're in after hearing the parties.

We are sending a new text for the tax reform that would not sacrifice three items that are essential: One, to try to collect at least 2 percent of the GDP through the reform; two, we would like to end with a system that is simplified and ensures transparency for tax collection; and three, that the tax burden does not prevent us from being able to reform the system.

MR. CÁRDENAS: Any more questions?

SPEAKER: I'm trying to have a conversation on Central America mostly, and interesting comments were made. Someone said that crime does not recognize borders, but the administration does know where are the borders. I am from Colombia, and I wonder what would have happened to Colombia if the departments of El Valle, Antioquia would have been other countries. That would have been difficult to handle. So, understanding sovereignty, how can we make progress in the fields of justice, police,

security within Central America? How can we coordinate with other countries in general? There are claims of lost sovereignty. If a country wants to cooperate with friendly nations, and that comes up with a certain degree of demagoguery but especially when these are small and large nations -- for instance, the treatment for stewardship of the environment of basins -- and one should be reminded that sovereignty is already being disputed by the drug cartels and other factions. So, we have to think about this. We're not only losing ground because we cannot negotiate the sovereignty that is lost by being taken away by intimidation, corruption, and the loss of institutions that lose ground to these cancers. So, we should leave those aside undoubtedly. We'd need to negotiate with intelligence -- make it a contribution to the regional dynamics -- and to redefine our strategy.

Central America is having a discussion with the financial institutions about how to ensure effectiveness in a regional setting. I have been the architect of the first phase of regional cooperation within the region. In the last 15 years I was the minister of safety when we started with these regional programs with the U.S. for joint patrolling, and I'm afraid some of it has been limited to treatments and agreements, because we have not been able to translate that into action, and we haven't promoted enough joint training and creating even personal ties with key players at the police level, the minister of justice, and other agencies to ensure that those instruments are used. Undoubtedly, the challenge is to go beyond the thought that if one nation solves the problem, that's the end of the problem. It is not. Crime never disappears but surfaces elsewhere. And we see that in the region. We do celebrate the effort of Colombia, a heroic one, but we see the unintended effects of the relocation to other areas. That's the balloon effect, as we know it, that the problem ends in one area and it appears in another area, so we look for a systemic solution.

MR. LOUIS: David Louis, Manchester Trade, member of Caribbean Action.

We were discussing security and trade at the regional level, and one of the comments was the success of the international trade for Costa Rica and the effective integration of the private sector for trade. One of the missing pieces is the integration of the business sector in the security agenda. We know that next month there's a security summit in Guatemala and there is a participation of the business sector not only from Central America but from other countries that have business in Central America, and I'd like to hear your views, as the president, on how we can continue to make progress in terms of the participation of the business sector in this agenda.

MR. CÁRDENAS: Should we HEAR other questions as well? Okay.

MR. CORREA: Good afternoon, I'm Lena Correa, Voice of America. I'm going to go outside the economic issues, and I'd like to ask what are your first impressions about the inclusion of Costa Rica in the Human Rights Commission and what are the challenges that it faces in terms of security, and what does it mean for the treatment of human rights, a problem that is included in the whole landscape of regional safety?

MR. CÁRDENAS: Another question to finish this round?

MR. BOUDILOUDAY: Good morning. Drohillia Boudilouday. I was Under Secretary for Defense of the U.S. attached to that -- it's ironic because we don't have an army, but we'll fight for peace. My question has to do with how Costa Rica relates to China. In San Jose, for instance, the new stadium donated by China impresses everyone there. Roberto Artavia had mentioned that this is a creation of AID, that he got a scholarship and funds to establish the library. How do you see these kinds of donations, this type of competition? Obviously, Costa Rica is an important investor for

China. What words do you have for the U.S. in terms of this relationship?

MR. CÁRDENAS: Let's stop there. We have a certain diversity here. Yeah, we have enough material.

PRESIDENT CHINCHILLA: I should say that the business sector in Costa Rica is showing signs that it wants to belong to something, certain participation with the citizenry that happens when a country reaches certain problems that affect the flow of investment and economic growth and opportunities. So, there is the awareness that we want to do something about it.

The administration is designing a strategy so that everyone can participate, because otherwise the danger for security could be that people take this into their own hands. And if we have too many initiatives, that can run counterproductive to what the government is trying to do.

Part of the problems that Colombia had to overcome was the issue of the paramilitary, and if the private sector feels that the government is not responding, then they want to do things their own way. And it is key to have the government initiative to include everyone and give everyone a role to play. The same goes for Central America. The Business Federation is also interested in being a part of it.

In terms of the vote for Costa Rica to be part of the Human Rights Council, we are honored by that decision, and that is a tribute to our history and work for human rights, and it's a commitment looking into the future. We have firm resolve and we want to continue to work along these lines.

Now, as to security and human rights and the -- for instance, personal freedoms -- it is key for each society to find its own balance based on the circumstances, we cannot have freedoms taken to extreme or have disdain for security. That may curtail freedoms. So, each society has to find its own balance. It's not a general recipe that

applies to all, and if we are to decrease or to curtail freedoms, we have to do it based on clear rules that ensure they will be applied to all of those who violate the rules. We cannot have decisions that are whimsical, that we are losing freedoms in two officers whose rules are not clear when they face circumstances.

In terms of Costa Rica and its relations with China, we're very happy about the stadium I must admit. It's a very beautiful thing for us. And that was a gesture from China on the occasion of the beginning of relations with China. You may know that we had relations with Taiwan and not with China and two -- three years we started having ties with China during the Arias administration, and Costa Rica does not base its relations with other nations on what we're going to get from it.

The spheres that we have access to -- because of our sizes we don't have access to many programs. We want trade and not aid, as we said, and we are mostly interested in our international policy of trade as an engine of growth, and we are only 4 million-plus population with a small market, and any country represents an opportunity, and if we're speaking about China with such a large market, that's an excellent opportunity that we think does not run counter to market opportunities with the U.S. or any other nation -- the E.U., for instance -- that we are discussing.

SPEAKER: Speaking about trade and not aid, if you look at the FTAs with Panama and Colombia and how much that was delayed in the U.S, what's your opinion about that?

PRESIDENT CHINCHILLA: Well, seeing -- looking at the opportunities that we have a need for, we would like to have had that approved, and we're doing many things right for the last few years. Colombia undoubtedly has overcome a huge problem with organized crime and so having incentives for those actions, and in the case of Panama, similarly to Costa Rica, is not begging for aid but is looking to have more trade.

So, we hope that they can make progress and we understand that when an economic crisis surfaces, sometimes the need for protectionism tends to surface. And it's hard to explain to our people why we have more unemployment, so we put up barriers to trade. But that would be a terrible mistake. We should continue to promote trade.

MR. CÁRDENAS: Any other question or comment?

And I'd like to say hello to the Ambassadors of Costa Rica, Guatemala, El Salvador. Thank you for your presence here. It's an honor to have you.

MR. TALBOTT: -- this session. I want to just make an observation here at the end.

Our guest made history in her own country, history that we have not yet made in the United States, of being the first woman president. I believe we have also made history here in the last half hour. I'm going to check the archives and I'd be mortified if I were wrong, but I believe this is the first time we have had an intense wide ranging discussion in this auditorium entirely in a language other than English. By the way it happens to be a North American as well as an American language but I think this is a good thing. It shows that Brookings is also making some progress and becoming a better neighbor to the rest of the hemisphere and also a better global think tank.

MR. CÁRDENAS: Thank you, Strobe. As you know Gabriel Garcia Marquez has this great phrase that says that the universal language is broken English. (Laughter)

Let's go on then. There was another question.

SPEAKER: Thank you very much, Ms. President from the National Democratic Institute. We have a small project in the northern triangle of Central America that tries to foster dialog within governments that are national and municipal and the civil society. My question is can you discuss the experience of Costa Rica in terms of dialog with different levels within government and the civil society, the police, and other projects

as in your experience as Minister of Public Security?

MR. CÁRDENAS: We may have time for one or two questions.

SPEAKER: Jorge (inaudible), previously with IDB, now with WOLA.

President, according to the news today, you will be signing a sizeable loan with the IDB for citizen safety. That is a commitment for security. We are thinking about the ability of Costa Rica to handle this issue, vis-à-vis the other countries in the northern triangle. How do you think that that imbalance can be overcome thinking, as Mauricio said, that crime knows no borders? And it is an infectious disease actually, and if we don't handle it together simultaneously, the problem will keep coming back.

MR. CÁRDENAS: We have time for only one more question. Mr Castresana if you are interested in making a comment --

MR. CASTRESANA: I accept the invitation. There is a huge difference in Central America that favors Costa Rica on the rule of law issue. I was in a mission for three years in Guatemala, but within the U.N. we believe that cooperation, that in many senses its focus on transferring best practices in the Central American region will be led by Costa Rica because, fortunately for you and your neighbors, is in a condition to export best practices for the rule of law issue in training or assigning prosecutors and police officers. And do you think that it is possible to have a common market for justice and security for Central America wherein some countries can be donors and others be on the receiving end?

It may be easier to have Costa Rican police officers helping in Guatemala rather than having Russian police officers there, and would it be possible to have, like, a common market for transferring technology where Colombian police officers specialized in certain security topics can be exported to the rest of the countries, for instance?

PRESIDENT CHINCHILLA: About the dialog applied to security, our experience is that it's very easy to get people interested. The main concern for most of our countries is that people are avid of being shown a way how to do it so it is easy to have a dialog with people who find avenues for collaborating. What is difficult sometimes is to have a method for the dialog, because if we dialog it's to get better results, to improve, to have an impact, and sometimes people become interested.

There's a first level of communication. Expectations are created. But we cannot translate it into concrete outcome. That's where we need to do more work, and there are many experiences that have been documented in the region of what is the philosophy for community security at the local level where they are more successful, where when we get a good mayor that leads these efforts with the national police, the business sector, they have generally accomplished good results. So, we have many success stories. Colombia has them as well. And we don't have to go too far but to use what has happened and being leaders have a method for creating outcomes.

About the financial burden, this is similar to the environment, that each nation has an obligation to do its own work to mitigate the phenomena that goes outside its own borders. We cannot expect -- and this happens to Costa Rica when we talk about the environment. We feel frustrated, because we have worked seriously and we have used resources, and every time that we -- there are climatic events, we are in an area where we get the most impact, and not because we're not doing our work but because we're trying to do it correctly but maybe not at the scale that needs to happen for a change to be seen.

We are a small market, and in terms of fighting crime, we are collecting more taxes. We are committed to investing, but other nations have to accept responsibility on equal terms, and if that doesn't happen it will be difficult to sustain. So,

we are sometimes frustrated, because we want to do things right, but we receive externalities of those who are not doing it correctly.

In terms of corruption within the institutions, no successful strategy against organized crime can be implemented if the institutions are not committed. That is a premise, a basic, fundamental premise; and if a country has that challenge, the first thing they have to do is to clean up the institutions, to have supervision and control of the police, and to review the sanctions. That will help. And if the media is independent, then they can help to report crime, sometimes anonymously, and that is essential. Otherwise, this will not lead to a good fruition. And I would dare to say that there are problems of corruption in many countries in the region. Costa Rica is making an effort of the judicial power, branch, and we still have problems to face.

In the cases that we have seen judges acting inappropriately, the press has been the first one to report it and then we have had investigations, and this has been clarified. Sometimes they have been punished.

About the comments by Mr. Castresana, I do believe that there is horizontal cooperation that we can exchange in the region, and Costa Rica is very interested in strengthening police techniques, and if we think about Colombia, I'd rather have this cooperation with Colombia. We are very similar in our idiosyncrasy. We understand each other. We have worked in circumstances of great difficulty, and we are improving our cooperation with Colombia in legal issues, and police cooperation we already have exchange. And in Central America, we would like to have more. There are some differences that explain why the best practices may not be used interchangeably. In the northern triangle they use the army to combat drug trafficking. We wouldn't be able to do that. But in other areas we may.

MR. CÁRDENAS: Thank you to the president, and I would like to

recognize the Central American Bank for economic integration, because this alliance with Brookings will allow us to have spaces for discussion about Central American issues in an integrated way, to have comprehensive regional approaches to understand these topics.

Thank you, Madam President. You are at home and you know that the opportunity of addressing a U.S. audience is much appreciated. We wish you the best in your term, and we know that you can play a leading role in promoting these topics at a regional level and find spaces to have coordinated solutions to problems that go outside national borders.

Thank you, and we wish you well tomorrow at Georgetown.

PRESIDENT CHINCHILLA: Thank you.

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/s/Carleton J. Anderson, III

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Expires: November 30, 2012