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

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PARTICIPANTS:

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

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P R O C E E D I N G S

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, CABEI, 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 CABEI 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 laagered 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 CABEI 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 expert 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 CABEI, 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 CABEI 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)