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INNOCENT BYSTANDERS IN A BRAVE NEW WORLD

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PARTICIPANTS:

Welcoming Remarks and Introduction

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PANEL 1: LATIN AMERICA AND THE WORLD–THE IMPACTS OF GLOBAL INTEGRATION FOR THE REGION?

Moderator:

KEVIN CASAS-ZAMORA
Interim Director, Latin America Initiative

Panelists:

JOSÉ ANTONIO OCAMPO
Professor and Director of Economic and Political Development Concentration, School of International and Public Affairs
Columbia University

RODRIGO VALDÉS
Senior Advisor, Western Hemisphere Department
The International Monetary Fund

EDUARDO LEVY-YEYATI
Nonresident Senior Fellow, Global Economy and Development, Latin America Initiative

PANEL 2: IS LATIN AMERICA READY TO ACT AS A REGION?

Moderator:

EDUARDO LEVY-YEYATI
Nonresident Senior Fellow, Global Economy and Development, Latin America Initiative

Panelists:

LUIS BONELL
Executive Vice President & CEO, Liberty International

ALBERTO MUSALEM
Managing Director
Tudor Investment Corporation

ARTURO PORZECANSKI
Distinguished Economist in Residence
American University

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P R O C E E D I N G S

MR. CASAS-ZAMORA: Good afternoon, and thank you all for being here today. I'm Kevin Casas-Zamora, Senior Fellow in the Foreign Policy Program, and Acting Director of the Latin America Initiative at Brookings. It's great to see an almost full house.

Today is an important day for the initiative. We are laughing today the third edition of one of our flagship products, the Brookings Latin America Economic Perspectives Report -- BLEP. This is a report that we put out every six months, with the intention of keeping our finger on the pulse of the Latin America economies, and do so in a way that is perhaps more candid, more frank, less politically correct than some of the other reports that are put out on a regular basis by other institutions in town.

Like its predecessors, the report that we're launching today hopefully lives up to the Brookings mandate to generate research defined by its quality, independence, and the intention to impact public debate and public policies. To the extent that it does so, it is the merit of its main author, my colleague Eduardo Levy-Yeyati and the team that lends support to him, particularly Luciano Cohan.

I would like to commend Eduardo for his commitment, not just to excellence, but also to the Latin America Initiative itself. As he himself told me at some point, with the departure, for good reasons, of our good friend Mauricio Cárdenas, he had to do twice as much work in half the time. But he's capable of that -- and more.

I would also like to thank the authors of the short country studies that comprise the second part of the report, Ilan Goldfjan, Roberto Steiner, Alejandro Werner, Luis Carranza, and José Manuel Puente. I would like to commend them for their good work and for their generosity to collaborate with this project.

Finally, the team that put together the publication itself, as well as this event, Diana Caicedo and Mao Lin Chen , in particular, deserve a resounding thank you.

As you will see shortly, this report poses very fundamental questions about the relationship of Latin America with the global economy. It delves into the question of the extent to which Latin America can remain relatively untouched, as has so far been the case, by the extraordinary events that we are witnessing in industrialized countries, particularly in Europe.

It also poses the question -- which we're going to talk about a lot today -- of whether it still makes sense to speak of Latin America as a meaningful economic unit, or if we have reverted economically to what that old text by the French sociologist Marcel Neurogang (phonetic) used to proclaim 40 years ago, the 20 Latin Americas.

Those are pretty profound questions. To talk at length about them, we have a group of really exceptional speakers that bridge the gap between academic and practical knowledge of the economic realities of Latin America.

In this first panel we will have Eduardo Levy-Yeyati, who will give us a summary of the main findings of this report. Eduardo is, first of all, a non-resident Senior Fellow in the Latin America Initiative at Brookings, but he is also a professor of economics and finance at the School of Business of Universidad Torcuato Di Tella in Buenos Aires. And he's also a guest professor at the Barcelona Graduate School of Economics, and Director of Economics at CIPPEC, the leading think tank in Argentina -- among many other accomplishments and accolades.

We will then have the participation of José Antonio Campo who, apart from being a good friend is the director of the economic and political development concentration, and a Fellow of the Committee of Global Thought at Columbia University. And the list of things that José Antonio has done over the years is fairly extensive. And I won't bore you with it. I mean, it's in the materials that were given to you upon coming into this hall. But I will just mention that among many other things, he was the United Nations Undersecretary General for Economic and Social Affairs.

And we also have Rodrigo Valdés. He is not here. He's on his way from the IMF, and hopefully will be here in a few minutes -- who is a senior advisor of the Western Hemisphere Department of the IMF. And before that, he was, among many other things, director of research and chief economist of the Central Bank of Chile, and the economic policy coordinator in the Ministry of Finance of Chile.

So really, you know, top notch speakers.

And then we will open up the discussion to the audience.

A second panel will follow after this one, which will precisely engage with the question of the economic homogeneity, or otherwise, of Latin America.

Without further delay, I thank you again for being here, for supporting with your presence the work of the Latin America Initiative. And I cede the floor to Eduardo for the next 20 minutes.

Panel 1: Latin America and the World -- The Impacts of Global Integration for the Region

MR. LEVY-YEYATI: Thank you, Kevin, for this generous presentation, introduction. I will try to summarize the report

that is, as Kevin mention, rather complex, and has many contributors.

Let me just give you a brief outline of the report.

Typically, we spend a very short fraction of the report revisiting the past six month, the first line. This is the first line.

SPEAKER: (Inaudible.)

MR. LEVY-YEYATI: It was working before. (XXXX Adjusts mic.) How about that. All right.

So the first part of the report, as I was saying, is essentially is a six snapshot of what happened in the past six months. This is something we know, so we don't want to spend so much time on things we know. The core of the report is really the second chapter, where we try to find or identify forward-looking issues for the near term, important for the region. And that's where I will spend more time.

And then we enjoy a bunch of collaborations, by first-rate friends and experts, describing the near-term outlook for some of the key Latin America countries.

So, as I said, I will stick to the second chapter, and try to summarize the main messages in 15 to 20 minutes. Okay. Those are the main messages.

The second chapter tries to do three things, essentially. First, to give a backdrop, to summarize the backdrop now facing Latin American countries, at least the main Latin American countries, relative to what seems to be a never-ending crisis. We have been talking bout the crisis for ages. The crisis has taken different phases. We are not in a situation like in 2009, but there is a lot of uncertainty as to how this is going to move on in the future -- whether we are facing a risk of a recession that brings memories of 2009, whether it's going to be pretty much as it is like now for a long period of time, or whether there will be a rally -- something that was in the minds of many analysts, say, by the end of last year.

So one of the things we do is to analyze the background, particularly to analyze the incidence of the global context in Latin America.

And there has been a lot of talk about these headwinds and tailwinds, and how they incite, how they influence Latin American growth. And one of the key economic variables, we try to measure that in a very simple way here, and that's going to take half of my presentation to show you in a very simple way how this global outlook can influence the American economies, particularly growth performance.

The second half of the presentation will be devoted to an introduction of what's going to be the second panel. It's how can Latin America respond as a region -- and in particular, opening the debate of whether the Latin American region is actually one region or two, or different. Or whether a Latin American regional response is actually feasible, given political, economic and other type of distortions that are pulling apart the regional members.

So what about the crisis? What is the actual backdrop right now?

First of all, one thing that we have to bear in mind just before looking into the future is that Latin America, for all the good things that the economics have done in the 2000s, it's still extremely sensitive to whatever is going on in the global -- in the world, in the global cycle. Let's call this the global cycle.

And this is just one way, a simple way -- I think you have seen this before -- to show this, to measure quantitatively, sensitivity. If you look at the growth rate here in 2009, the growth rates in Latin America were relatively -- were higher, definitely, than elsewhere in the world. But if you actually measure the impact of the crisis on growth -- that is, the decline of growth rates relative to what it was -- the average growth rate in the past, say, three, four years, then you -- and that's essentially the dark blue bar -- you see that Latin America actually performed not only worse than the typical advanced economies – AM stands for Aadvanced markets -- but also worse than general emerging market universe, excluding China, of course, which was a clear outlier.

What I'm trying to say here is that for all this (inaudible),de-dolarization, de-leveraging and revamping of monetary and fiscal policy, and the fact that they actually, these Latin American countries were actually able to implement countercyclical policies, the final result was huge -- was a sharp decrease, a sharp decline, in the growth rates in the region.

So one can only speculate that if we face another 2009, we will essentially be contracting at a comparable pace. So the degree of exposure to the global cycle is big.

Where are we now, relative to where we were at the beginning of the previous panic, post-Lehman panic, in late 2008? These charts -- I don't know whether you can actually see them clearly -- try to illustrate the relative position based on, essentially, four variables. The first one is industrial production -- that's the left-hand side of the chart, at the top. And the red line is Latin America. Actually, LAC-7 -- you know, seven countries, excluding Venezuela, which a clear outlier in terms of economic performance during this period.

And as you see, we are, in terms of industrial production, not only the region recovered everything it had lost during the crisis, but also is above the previous peak -- although it's already showing signs of slowing down. So, in a sense, the main message here, when trying to express is that the crisis is over. But now we are again looking forward, we are facing a period in which growth rates of the type of the level that we saw in 2010 are unlikely to be repeated.

The second two variables that I'd like to look at, to track the evolution of the crisis, or actually the evolution of the crisis as reflected in Latin America, are exports and imports. And again exports have been moving very dynamically in the post-crisis period, driven by China. You can see the correlation between the red line, which is Latin America -- sorry, the black line, which is Latin America, and the red line, which is China, and you see the clear correlation -- and a slowing down of the speed of increase.

Which means that if China actually starts slowing down -- which is -- there are some indications that the Chinese are trying to engineer a soft landing -- then exports, and external demand (inaudible 00:13:56) will, again accompany this slow -- this soft landing, and lose part of this strength.

In terms of imports, it's pretty much the same story. We are, again, above the levels prior to the crisis, but already stabilizing at those levels.

And the same can be said for confidence. Confidence collapsed during the crisis, recovered very quickly, and now it's relatively stagnant.

So, overall, the situation of the region looks like it went through the crisis and recovered. But at this stage it's facing a scenario in which, you know, the dynamism that we saw in 2010, which we thought that might be repeated looking forward, is no longer there.

The second, I think, key difference between now and then has to do with the fiscal space, or fiscal balances. In 2009, many of these countries had pockets of liquidity or fiscal space in order to increase spending and mitigate the effect of the declining global demand. And this, this fiscal space, this capacity to increase spending this time around is rather limited. If we compare cyclically-adjusted fiscal balances, then -- the red bars -- and the average is given by this dotted, the blue bars and the blue dotted line -- compare the cyclically-adjusted fiscal balances then and now, we see that the fiscal balance today is quite tighter, and doesn't allow to increase, you know, fiscal spending, (inaudible 00:15:42) as was the case in 2009. This is important because when we look at what's going on in Latin America right now, in terms of monetary and fiscal policy, we see that there is an incipient change in the policy mix. In 2009, typically we saw, you know, easy monetary policy, but particularly easy fiscal policy. And if we look at what's going on in the region -- in Brazil, Chile, probably with a lag in Colombia and Peru -- we see that now the composition is more trending towards a tight fiscal and easy monetary policy.

The Brazilian case is the most typical one. Brazil surprised with an interest rate cut. One of the explanations is that you cannot expect so much from fiscal policy. Actually, fiscal policy is hinting at an adjustment. Whereas monetary policy is taking more of the burden this time around.

I think is something that we will be seeing in region in general. But it's not by chance. It's just that the space to sort of support growth through fiscal spending is now rather limited.

So that's where we are. And as I said, what we think is an important point, and tried to highlight in the report, is to quantify the impact of this global crisis. Since this report is discussing global crisis and how prepared we are to cope with that, it's always interesting to see, quantitatively, how large is the effect of, say, a recession or a recovery, or just a stagnation as we are sort of -- I think this is best-case scenario -- a long period of disappointing growth in the rest of the rest of the world.

And to do that, we constructed a very simple index that we are introducing here in this report. And we plan to, you know, follow up on this, you know, on a regular basis. And we call it the "Global Wind Index" for these typical buzz-words, headwinds or tailwinds, that there's so much discussion about.

How did we construct this? We do this in three, I think four steps.

The first one is identifying these global factors, common global factors that are supposed to impact on, typically, all Latin American -- all emerging economies, particularly all Latin American economies. And here we have to be more precise, anticipating a little bit the discussion of having the second part of the chapter, and circumscribe our view to a few countries and leave aside many of the countries that, in our view, have a different correlation or a different performance than the standard Latin American countries we think about. I mean, we calibrated this index based on LAC-7. And that excludes most of Central America probably -- although we're still thinking about this -- it probably should exclude Mexico, simply because some of the factors impact differently on Mexico and Central America, that they do on South America. But for starters, we use the LAC-7 situation, LAC-7, bigger countries in the region.

And so anyway, step one, we have to identify the different global drivers, or growth underlying factors.

First one is what we call the "risk cycle." And this is the most closely associated with the post-Lehman crisis. And it's, in this case, measured essentially by the common component, the common factor between the VIX, which is typically called the "fear factor" -- essentially the implied -- the volatility implied in options on the S&P 500 trading in Chicago. It's a measure of volatility as perceived by the market. So we have this series on the one hand. We have the high-yield U.S. corporate spread on the other, and another series that's typically used to proxy both risk aversion and degree of risk.

As you can see, both can move very strongly. So it's very easy to take a common factor out of these two, and that's what we do to summarize the risk -- what we call a "risk cycle" of financial underlying factors.

And it's easy to see how this operates on variables that are typical in emerging economies, what is the channel through which risk affects emerging economies. If you compute, for instance, as we do in this chart, the common factor between capital inflows on the one hand, and exchange rates on the other -- those are the two, the light and dark blue lines -- and show these common factors compared with the risk cycle that we just computed, you see that whenever the risk cycle goes up dramatically -- as, for example, around the Lehman bankruptcy, this implies a very strong movement out of these countries, capital outflows away from emerging markets, and a very sharp exchange rate correction at the same time. Which is, of course, the result of these capital outflows. So in a sense, this risk factor operates primarily through the balance of payment, and primarily through portfolio flows.

What other global drivers can we identify to build this Global Wind Index? Well, commodities is one of the key issues, and one of the main things behind this idea of global co-movement in growth rates in the region. So what we do is, essentially, extract a common factor, a common component, from the key commodities that are exported by the region -- grains in general -- soybeans, wheat, and maize -- oil, and copper.

And, again, fortunately, these commodities tend to be highly correlated, among other things because there are some financial determinants behind those prices. So it's easy to get a common component that explains a big chunk of the variability of these commodities.

How much do they explain? Well, here is a way of assessing how precisely we are capturing the movements, the common movements, of these individual series. For instance, the red bars are telling us that the risk factor, the risk cycle, is essentially explaining about 90 percent of the variability of both the VIX and the high-yield series. So these common factors are essentially capturing most of the action of these two series.

And the same -- mostly the same happens with the commodities. The common factor in the communities explaining the biggest part of the mobility, of the variability, in grains. And it's a little bit less tightly correlated with oil and copper, but still there is some -- particularly with oil there is some co-movement. So in a sense it's capturing part of the volatility there.

Step three, now that we have isolated these two global factors, is to isolate the common pattern in growth in Latin America to see whether this common pattern can be explained by a few global drivers. So we do exactly the same as before, we compute, we extract a common factor from out of the growth pattern -- the quarterly growth series for the seven Latin American countries in our sample.

And then we estimate the index. And the estimation is relatively easy. The table is kind of boring, but I can give you the intuition behind this. We essentially take the common growth factor -- that is essentially a good characterization of the average growth in Latin America, and we regress this against our risk index, which I have just shown, the commodity index -- again, the one that I showed before in the charts -- and to measures of global growth. G-7 growth, a balanced country growth, and China's growth -- which is uncorrelated, typically, with G-7 growth, so it can be assumed to be another global driver.

I mean, if you run this regression, we get, of course, coefficients. We use these coefficients to construct an index based on these four global drivers "global" in the sense that they are exogenous, and nobody is essentially saying that the growth in Colombia is actually affecting commodity prices or risk in New York, or Chinese growth, or growth in Europe, for instance.

So based on these four global drivers, we construct an index, as we call it, the Brookings Global Wind Index, which essentially is an index of these independent, exogenous global factors.

And other question is how much can we explain of individual country growth performances, using these very simple common index? And here's the chart. And we actually tried to answer this question both for the pre-crisis period and the post-crisis period.

So, for instance, let's take Brazil. This index that we constructed, how much of the variability, of the growth variability in Brazil, is explained by this very simple index? Before the crisis, a little less than 30 percent. How much is explained -- how much of the Brazilian performance is explained during the crisis period, that is during this never-ending crisis starting, say, by mid-2007, which is the exercise we are showing here -- about 80 percent.

So 80 percent -- I mean, of course, there may be some other reasons. But with this simple index constructed based on four indicators that are, in principle, unrelated in the sense of not caused by Brazilian performance, we can explain 80 percent of Brazil's growth. Which is high. This is the index.

Now, what does this index tell us in terms of what's going to happen in the future? Of course, it is not a predictive index, but we can, you know, speculate by making the variables that integrate the index -- the four variables, the risk, commodity, G7 growth and Chinese growth -- factors equal to some scenarios that we can choose arbitrarily.

And here we did exactly that. What would it tell us, where would the growth, the common factor, the common growth in Latin America be if, say, these four variables were at the levels they had during the Lehman crisis, right after the Lehman bankruptcy? And we got this point here. So, essentially, if we replicated the Lehman collapse -- which is highly unlikely, of course -- we would be still losing, still contracting, by around 4 percent. Never mind all the coping mechanisms and the shields and the, you know, reserve pooling that you can do. It would be very unlikely that you can do much better than what you did in 2009.

What will happen in a good scenario, in which we go back, you know, prior to this phase of the Greek crisis? We go back to, say, the end of last year, where people were a little bit more optimistic? We will be here -- that dark blue point -- which is, again, not as high as we are now, because now we are essentially still seeing the tailwinds of the recovery. But it's a relatively high number, a relatively large number -- 4 percent, maybe a little bit more than that.

And where would the region be -- again, with all the caveats of this simplification, of course -- if we simply stayed as we are right now? I mean, where would the region converge, in that case? Well, it would be around this point, the dark -- sorry, the red square, but it's a little bit, I think, above 3 percent. Which is, again, positive growth, although more modest than people were thinking a few months ago -- right?

So I'm not saying that I know the answer to this -- I mean, how to choose between these three points, but we can actually play around with the index and get an idea of the extent to which the region responds to exogenous factors, to the world -- right? For all the time that we spend trying to analyze the countries' fundamentals, regional fundamentals, that of course is valuable. But we cannot ignore the fact that the region is still very sensitive -- that sensitive -- to whatever is going on in the rest of the world, particularly in Europe, the U.S., or China -- which, you know, impacts on risk, risk aversion, commodity prices, and on accelerating demand, on growth in those areas.

What can the region do in that situation -- given, accepting, that you have this degree of exposure to whatever is going on in the world? And, in particular, what can they do politically? Because there's been a lot of talk about different initiatives, recent initiatives, from reserve pooling to new development bank -- Banco del Sur. And there are meetings, and a lot of good will.

But what is the situation in terms of regional economic coordination? And where does the region -- where is the region right now in terms of regional integration? Those are the questions that we try to answer in the last part of this chapter.

And let me give you just telegraphically the message, the main message. Because I think I'm running out of time. But we will come back this in the medium -- particularly José Antonio has very nice, interesting points about this.

One way of illustrating the problems of thinking of Latin America as a region is -- looking at this chart, this chart not only shows the well known divergence between the commodity exposure of, say, Central America and North America, or Mexico and Central America on the one hand, and South America on the other, it also highlights what I think is even more important: the asymmetry in terms of trade links with the U.S.

There is another dimension here, but it would have been really messy, the chart -- which are the labor links to the U.S. And if you think of Mexico in particular, and Central America, the labor links, the degree, the importance of remittances, which are essentially labor exports from Central America are also key to understand the political and economic integration between Central America and the U.S.

But anyway, what I'm showing here essentially is two things. On the one hand, the quality of being a net commodity exporter or importer -- net commodity exporter isn't typically associated with South America -- and the association more geographically oriented, which has to do with the trade links in this case. And if you see -- you know, with some exceptions -- Colombia is a big one. Colombia is very closely integrated with the U.S. in terms of trade. Actually, I think Colombia exports -- half of their exports are going to the -- 30 percent are going to the U.S., 15 percent to Europe. So it's highly concentrated on the regions that are actually not growing. But apart from Colombia, which looks like an outlier, it's very clear that those, the South American points, the blue points constitute a group that looks quite dissimilar from the red points, which are, you know, Mexico and Central America.

This, per se, should have some reflection in terms of the possibility of having an agenda, a common agenda, between these two groups. The U.S. is certainly a disruptive player in building a common agenda. And economically, you know, these countries react differently to whatever is going on in the world. So, you know, it simply suggests that going forward a South American agenda is probably more likely in going forward than a Latin American agenda.

But we tried to build on these type of illustrations to sort of question this idea of Latin America as a region -- as a region in terms of economic region, but also political region.

Another point that I think is characterizes the America negatively, if you want, in terms of the regional integration -- and here, let me just digress a little bit. The report suggests at some point that the response to the crisis, to this ongoing and protracted crisis in other parts of the world is, to some extent, a move towards more regionalism. That's why we are asking ourselves what can we do for Latin America to regionalize a little bit the effects of the crisis? Regionalization in the sense of being less exposed to Europe and the U.S., countries, areas that are bound to grow very modestly in the future, and to build dynamism within the region, which is presumably going to grow more rapidly -- something that I think the Asian region is doing.

So if we compare, based on that premise, if you compare the degree of financial -- sorry, of trade integration in Asia with South America or the Mercosur, which is supposedly more integrated than South America in general, we see yet another big difference. In Mercosur we have a very low degree of intra-regional trade, which reflects essentially the almost nonexistent intra-industry trade, which is the key point moving, explaining, trade integration in Asia.

And this is not trivial, in the sense that if we really want to build integration, intra-industry trade is probably the most logical way to proceed, to create not only synergies between countries, but also to expand the market in which these companies are working. I think the scale factor is the key one to explain the benefits of intra-industry trade in Asia. It's something that's not visible in Latin America.

Then we have yet another negative factor inhibiting trade integration in Latin America, which is what I call "the China syndrome" -- the fact that our region is increasingly exporting natural resource-intensive -- that's in our i there -- natural resource-intensive products to China, which is well know. You know, if you look at the three lines over there, those are Argentina, Brazil, and Chile -- sorry, and Uruguay. And most of what they export to China are essentially primary products. We know that. It's soy, it's grains. And on top of that, they export -- sorry, primary products are not even elaborated. So it's just soy, it's not soy oil, it's just the very basic, unelaborated, you know, homogenous soybean that they are exporting mostly -- and increasingly.

And let me explain very briefly what this is. I mean, if you take natural resource-intensive goods, you can, to some degree, identify the value added to that good by a number of criteria that are essentially summarized in these three tags here: homogeneous goods will be essentially the soybean as it is. And then we have Aprice-referenced@ goods, and differentiated goods. And if we look at the evolution of the composition of the export to China of primary goods, most of them are -- and increasingly so -- homogeneous,

So what is our conclusion from this, is that to some extent this pattern that concentrates exports and production as a result on China in particular, and in particular on products that are not elaborated, in a sense can be sort of a factor that is pulling apart these countries that, instead of trading among themselves, look all towards one single economy that is not requesting any degree of integration from this production.

And there was a candle in one of these -- here. I forgot to explain why I put that candle here, but I think it's a good time to do that.

Two, I think three weeks ago, the Minister of Economics of Peru said publicly, in a press conference, that every morning he lighted a candle so that China didn't stop growing -- right? That was his (laughter) -- that was his answer to the crisis. And the journalists were asking what you're saying about the crisis, I said, I light a candle.

So this is the candle -- right? I mean, we are exporting soybeans.

It's another way, I think more elegant, if you want, of illustrating the degrees of exposure and dependence we have. Because as I said, this is a different type of exposure -- exposure to Chinese growth, and to Chinese growth not changing in the pattern in which they are growing. So, again, something to work on.

And finally, there is also a movement, or at least some rhetoric towards financial integration. And this is a little more complicated, but I will try to summarize this in, say, one minute, by comparing two reserve pools -- the so-called Chiang Mai Initiative in Asia -- something that's very old, but it was revamped twice. The Asian crisis once, and then after the recent crisis, they're changing the way in which this money is allocated.

But essentially, it is a reserve pool, it's a bunch of currency-swap arrangements between different central banks. It is centralized to some extent. It's essentially the option for any of the member countries to borrow hard currency in the middle of a crisis. It's like an IMF -- a domestic IMF, if you want. That's the Chiang Mai

Initiative, and includes essentially the ASEAN group, plus the three big countries, including China and Japan.

In Latin America, we have something that's called Fondo Latinoamericano de Reservas -- Latin America Reserve Fund -- that is pretty much the same thing, except for one difference: they're all Latin America countries.

So what's the difference here? What is the message we want to extract from here?

If we want to -- and, again, you know, much of the discussion of financial interventions associated with this Fondo Latinoamericano de Reservas -- because there is a lot of talk about enhancing it, increasing their membership, you know, and Brazil becoming a member of CIP or FLAR, which it's not right now.

The point I want to make here is the following. The main difference between the Chiang Mai Initiative and the Latin American Initiative is that when you are in the middle of a systemic crisis, typically countries will need one of the reserve currencies. And reserve currencies are the ones that are actually appreciated in a crisis, the one that everybody runs to in the crisis. And there are not so many, really. The dollar -- and the issuer of this currency is the Fed. There's the yen, and the issuer is the Bank of Japan. Maybe some dollars that China has -- so China may work as a lender of last resort simply because they have so many treasuries that they can actually spare some. And there is to some extent -- but it's not obvious after the crisis -- the European Central Bank. It's not obvious, really, because the European Central Bank actually needed dollars in the crisis.

What's my point? My point is that if you really want to integrate to cope with the global crisis like the Chinese, the Chinese -- look at these numbers.

(Pause.)

This never works, but let me try. No. Okay, let me show you.

The third line, where it says multiplier, is telling you how much money you can obtain from what you actually contributed to the fund. Any of the funds that you put -- you know, $100 million, and then in a crisis you can get much more. Because that's the idea, is to leverage on the fund.

So if you look at, for instance, the country -- the first line is Brunei, for instance. Small country. A country that's supposed to be benefitting from the fund. So the multiplier is 5. It can get five times what it contributed.

Of course, in a global crisis everybody wants the money at the same time, because, you know, it's global, it's systemic. So somebody has to not be able to withdraw. And here it's clear what these countries are. If you go to the third line, China, it has a multiplier that's less than A1.@ So it's supposed to put the money, but never withdraw it. It cannot withdraw 100 percent of the money they put. It's the actual lender.

And the same happened with Japan, which is, I think, you know -- it's over there. That is another .5 -- the other .5" multiplier is Japan. That means that the Japanese government puts, say, a billion dollars, but it will never actually get the billion dollars. Because this idea is that these dollars are essentially to be loaned to the countries that really need them during a currency crisis, or during the global crisis.

What's the difference with Latin America? In Latin America, everybody can withdraw 2.5. Which means that if we are in the middle of a global crisis, everybody will try to get more than twice as much money as they put -- simultaneously. That cannot happen -- right?

So the point is that, yes, financial integration is fine. A lot of this rhetoric is interesting. But definitely, we need a Japan here -- right? So, in a sense, you know, again we are -- let me put it this way. If the Asian reserve pool has China and Japan, and the European reserve pool, or whatever the European monetary fund is if there is eventually one, has the ECB, we are left with the U.S., which is typically not interested in being the Japan of the region.

So, again, another obstacle for this attempt at the financial integration to actually materialize in practice.

So, just to conclude, and to open the discussion on something I think is very important -- you know, this idea of the region, Latin America as a region. And we are tired of listening to things like, this is going to be the Latin American decade, Latin American this, Latin American that -- we know that this is heterogeneous (inaudible). My question is, will there, in fact, to homogeneous, or something that's close to an homogeneous region within Latin America that we can work around a common agenda.

So that's it. That's the summary.

And the challenges are essentially -- the challenges at least that we highlight in the report -- are essentially these three here.

We need to revamp trade integration in Latin America. It's going down. It's been declining. That's one way of isolating from the dependence to where it's actually growing less and less.

We need a viable issuer of last resort. We need someone that can actually lend us money if we want to live without the IMF or any other safety net. We need something that's actually reliable during a global crisis. And we have to work on that. I think there are some people that are already working on that.

And, of course, we need leadership. This is something that we can discuss forever -- so I'll stop here.

Thank you. (Applause.)

MR. CASAS-ZAMORA: Thank you.

Rodrigo -- we welcome Rodrigo Valdés from the IMF.

And I'll give the floor to José Antonio for 10 minutes. And then Rodrigo for another 10 minutes.

MR. OCAMPO: Well, let me thank Kevin for this invitation to be with you today to comment this very interesting report, to congratulate Eduardo Levy-Yeyati and the whole team for the report.

I must say, in reading it, I was reminded that those of us who came from the tradition of the United Nations Economic Commission for Latin America were bashed for a long time for thinking that, you know, balance of payments shocks are, in fact, the dominant factor in Latin American economic growth. So I -- you know, I welcome you to CEPAL-thinking. You know, I think you finally came to our side in the analysis of these issues, which I am, of course very happy. And actually even the structural analysis -- for instance, the commodities, the problems associated with the China dependence -- very much coincide with the views.

So I am going to -- so I generally agree with that. I have a bit of disagreements with Chapter 3, but I'm not going to go into that, you know national case studies. So I'd rather try to emphasize a few points which in many cases are caveats on the views that are expressed in the report.

So, let me start, actually, with the North-South. I mean, the report makes this issue of the North-South dependence -- again, a point that, you know, became very visible by the late 1990s. And it was then very much emphasized in the work we did at the time in CEPAL. This is the North-South picture of per capita GDP growth in the last three years, including this one. I mean really positive growth in South America, in the top. And, you know, very weak growth. With two exceptions -- excuse me, one exception in South America, which is Venezuela, which is highlighted in the report, which is a problem on its own -- and two positive ones in the same, the north of the region, which are Dominican Republic and Panama -- okay? -- as two exceptions, you know, interesting exceptions. I will not go into this, but I think commodities, the commodity boom generated by China, which is, I think, what is implicit in the report, is really behind this big difference. So it's not only good performance.

Now, how much is -- you know, one of my personal obsessions in recent years, which actually has come out in different reports, including this one, is, you know, the issue of counter cyclicality versus pro-cyclicality of policies. I would not -- my reading of fiscal policy is actually that it's generally pro-cyclical still in Latin America. So that it doesn't really explain the difference performance of countries. This is my own exercise in trying to classify countries, this is primary spending during the boom, 2004 and 2008, and during the crisis. And I classify countries that actually slowed down the rate of growth, of spending, as pro-cyclical -- you know? And actually this is the right-hand side -- you know, actually more, about half of the countries have pro-cyclical, clearly.

Countercyclical is the opposite, you know. Countries that spent relatively modestly during the boom, and then expand, you know, accelerated spending during the crisis. According to my classification, only four countries classify: Chile, El Salvador, Paraguay and Peru.

And then I find this other category, which I simply, I call Steady Growth, which are basically countries that spent during the boom and spent during the crisis. They always spend. Okay? (Laughs.) Which is not countercyclical -- right? That's Argentina, Colombia, Costa Rica, Guatemala, and Uruguay -- okay?

So this is my -- so I don't think your fiscal policies really -- now, monetary policy does have a countercyclical character, although it's relatively recent. Because Europe, you know, is really at the end of the previous boom, and then the recent cycle, in which there is clearly a countercyclical pattern. But it was not before. For instance, in

2006, it's an interest case, you know, already in the midst of the boom, the only central bank that really tried to tighten then was Colombia. No other one. Okay?

So it's unclear, also, whether in monetary policy has become -- now why has it become clearly countercyclical?

So this leads me to the issues of, you know, sustaining the recovery which is, I guess, the major theme of this report.

I would say the basic reason, I would say, is exactly this: the reduced external vulnerability -- I mean, according to my terminology. So Latin American countries have finally -- my way of reading this is during the boom, we were able to finally overcome the debt crisis. The debt crisis had continued to hang over Latin America until the early part of this century. And it was really expected -- well, it's affecting the external debt as a proportion of GDP. And with the two things. You know, first of all, the reduction in debt ratios, but also the accumulation of reserves which have the net, you know, the net external liabilities.

So finally this ratio came to really low levels. And I think this is the basic source of strength of Latin America. This is what allowed Latin America to do countercyclical monetary policies, which were the basic things that they did during the crisis -- not fiscal policies, in my view.

So this is, I think, the basic gain of Latin America, the basic strength. This continues to be true. So the Latin American countries will be able to do countercyclical monetary policies if, you know, another crisis comes. I agree that, you know, countercyclical fiscal policy is a more questionable issue. But my point is, they have never done it anyway -- I mean, except for a few countries. (Laughs.) Okay?

Now, this is a source of strength that is not pointed out in the report, which is actually the recovery of the investment ratios, or the investment rate in Latin

America. Here is, basically, this is the mid-1960s, where the, you know, proportion of GDP invested, you know. So you see the boom that preceded the debt crisis.

But then what is a big difference between the 1990s and the previous boom, is that the previous boom did lead to a fairly generalized recovery of investment in Latin America. Not the 1990s -- okay? -- which is basically what this shows.

And the second point is that there are two countries that have not recovered the previous records are very far from that, which are called Brazil and Venezuela. So I actually -- the red line eliminates Brazil and Venezuela. And what you actually find, you know, it's clear in Brazil and Venezuela, actually we are at record investment rates. Okay? So -- yeah, they are not Asian but by Latin American standards, they are actually quite good. Okay?

Now on the commodity boom, I would like to emphasize one point, based on my historical work on real commodity prices -- which is a big difference between minerals and agriculture-okay? Which I think is quite, quite important, actually.

This is the non-oil commodity prices. The indices that I use, you know, which I have -- you know, don't work since the 19th century on this issue. And these are basically 1980 equals to 100, to just point out something that is very important. Metals, here, and oil -- which was in the previous graph -- are really booming. Okay?

Agriculture is unclear. What happened with agriculture is that they recovered for very low levels. So this one, which is temperate-zone agriculture, only recovered in recent years the levels of the 1970s, in real terms. And tropical agriculture, which is the bottom, has not even recovered them. Okay? So agriculture is unclear. And I think this has to do, actually, with China. Because China, at least prices in minerals and energy, not in agriculture -- because China is not a major agriculture importer, except for soybeans -- okay? And this is reflected actually, in terms of trade, of Latin American countries.

So these are the gains or losses in terms of trade since 2003. You know, the boom starts in 2004 in commodity prices, and this is two years -- 2008 and 2010. And what you see, the top of the list, they are all mineral exporters: Venezuela, Chile, Bolivia, Peru, Colombia -- which is a mineral exporter, as the document clearly points out, you know. Sixty percent today is oil, coal, and gold, and nickel. Ecuador -- and then the big agriculture exporters, Brazil and Argentina, come significantly behind.

So Latin America -- so the influence of China is more in minerals than in agriculture, which is a little -- so it does make a differentiation in South America between those two basic patterns.

Now, the two troublesome issues that I see in the recovery rapidly emphasized, this is the big, darkest spot -- as the reduced net debt ratio is, I think, the brightest spot, this is the darkest spot. Which is the fact that we have been consuming -- excuse me, we have been expanding the commodity price boom. Okay?

So what I do here is, on top you have the current account balance of Latin America as a proportion of GDP. And then I do the same calculations, but at 2003 commodity prices. And it gives me the red line. I think this came out in one of the IMF reports more or less clearly.

So, but, you know, I had been emphasizing this since the previous boom, because you can see already, even during the previous boom there was a (inaudible). So the strong current account balances were actually a reflection -- in a sense, did not capture the fact that we were expanding the commodity price boom.

Now, the deficit that I estimate for 2011 is 6 percent of GDP. Okay? Which is much worse than the previous, the level of 1997 -- okay? -- or 1998, when it was around 3 percent of GDP. So there is a big risk, if commodity prices fall, South America, in my view, is in deep trouble -- okay? That's the basic message.

Now, it's more the specific country stories, but I like to emphasize some of the risk of exchange rate flexibility. I mean, there is -- the country stories have this view that exchange rate flexibility is the best option. I have my doubts. I think highly managed flexibility of the exchange rate, exchange rate flexibility is probably the best thing that we can do. Which is actually what Asians do -- okay?

Now, Latin America is more floating. And the risk of volatility of the exchange rate, which is -- this is the volatility of the real exchange rate, the monetary real exchange rate, is extremely high. And I have classified regions by the flexible, the more managed, and the dollarized on the bottom -- okay? -- just to emphasize the very high volatility of the real exchange rates of Brazil, Columbia, and Uruguay, Venezuela, also, you know, in the second group. But also the fact that that is also, you know, the over-valuation that is generated by those phenomena. So flexibility has generated a lot of over-valuation in several countries in South America -- Brazil, Columbia, and Uruguay being the most important cases. Okay?

I think this has been very costly. And the report on Brazil points it out -- not the report on Colombia. Okay? I think it's a big problem in Colombia, also. And I think, you know, according to this it may be also in Uruguay. Not for Venezuela, which is a pretty bad story in that regard, too -- okay?

Now, the final comments on the structure and the proposal that are made in the report, I will start by emphasizing this issue, which is the fact that Latin America is back to natural resources. This is the share of, you know, according to this (inaudible) technology indicators of high-technology, mid-technology, low-technology manufacturers, and then resource-based manufacturers, and primary goods -- see, the bottom two were falling consistently. In fact, they were falling in Latin America since the 1960s. But they bottom out in 2003, and then they have been growing again. So, Latin America is back to natural resources.

This has advantages and disadvantages. I mean, the basic advantage that we have seen is that South America, which is more commodity dependent has been booming because of that. I mean, that's clear advantage in the short term. In the longer term, however, I think there are more questions. And this is, for me, the basic problem of Latin America, which is -- these are three technology indicators used by CEPAL.

In comparing Latin America with natural resource-based industrial countries -- the Canadas, the Australias, the New Zealands, the Finlands of the world -- then emerging Asia and industrial economies, just to point out, that in all three indicators -- the first one is the share of engineering industries. You know, it's one-third of the natural resource-based industrial countries' share. It's one-fourth of that of East Asia. Research and development is one-third or one-fourth. And in patents, we don't exist. Okay? Latin America doesn't exist. And it's 100 -- you know, it's just a minimum fraction of what is patented. I mean, a small industrial economy like Denmark, you know, patents more than Latin America. Okay? So it's a real problem.

So this is the basic -- I think even beyond natural resources, this is the basic problem. We have lost three decades, in terms of technology development -- okay? That, I think -- this is the core of the structural problem, in my view, of Latin America.

Now, finally, two comments on the initiatives of Latin America Initiatives.

On integration, which I don't have a graph, I will emphasize that I tend to support with my heart the view that integration is good. The reality tells me that for Central America it is working. I think for South America it is not working. And it is not working for two basic reasons -- first of all, because it has become extremely pro-cyclical. So the intra-regional trade in South America, say Brazilian-Argentinean trade, or Colombia and Venezuelan trade, is one of the most unstable trade patterns. And second, because of protectionist trends against intra-regional trade. This is the story of Venezuela with Colombia. This is the story of Argentina and Brazil against each other.

So that the -- you know, there is no firm political commitment to deep integration in South America. I think in Central America it finally has come out relatively well, back to the levels, to the previous story of the 1960s, which was very successful in Central America. So in South America, I think, perhaps around UNASUR, there will be a return. So that I'm a bit more negative.

But I'm extremely -- on the contrary, I'm much more positive about reserve funds, which I think the report underestimates. I mean, I have been, of course -- I belong to one of the countries of the Andean Community, which has the only reserve fund, to which now Costa Rica and Uruguay belong, which is called Latin American Reserve Fund, but it's really Andean, still, you know, in its basic structure.

Just to point out that the view that Latin American Reserve Fund has functioned extremely well for three decades -- extremely well. And it is not true that countries come to use resources at the same time. They don't. Actually, that's -- you know, you look carefully, they don't. They come at different times. Even when they have, you know, more or less -- because the coincidence of the cycles is not as good, and because some countries do have different experience at the beginning of crisis -- okay?

Now, second, it is highly favorable for the smaller countries. It's biased towards the smaller countries, which is part of the story. So, you need -- for Latin America, you need the lender of last resort for the large countries, that's for sure. In the

Andean community, it has been Venezuela. Okay? And it is true that even in Latin America we did, back some time ago, in CEPAL, also some estimates that indicated that about 15 percent of Latin American reserves in the old times, 2005 levels, much lower than they have today, we could have managed every single IMF program of Latin America except for the largest three countries.

So the reserve funds, actually could be a very useful instrument, much better.

This is just the numbers for the Andean region, versus the IMF, just to point out that in several years, FLAR has actually exceeded, in terms of funding, IMF. In fact, the only major exception was the early 1990s, when Venezuela was a major borrower from the fund. So, in fact, you know, for all the countries -- for instance, my country, Colombia, has never received funding from the IMF, you know, since the 1960s. It has received funding from the Latin American Reserve Fund.

So the Latin American Reserve Fund has actually been a very useful instrument. I think it should be scaled up, all of Latin America become members to start with. I think the current initiatives probably to bring all the South America countries in I think would be very good news for Latin America.

Thank you very much. (Applause.)

MR. CASAS-ZAMORA: Rodrigo Valdés.

MR. VALDÉS: Thank you very much, first, for the invitation. And apologies for being late. I thought it was at 2:30. That was the misunderstanding.

I would like to give a few comments on the report, and I would like to focus, really, on two issues. But if we're going to two issues, let me just give one formal comment, and something on pooling, given the discussion so far.

In terms of formality of the report, I think it would be great to have an executive summary, very punchy. So maybe we'll lose time summarizing the report to very busy people -- even more busy people. So that would be a great idea.

In terms of pooling of reserves, a couple of thoughts.

One is graded risk. The report mentions very clearly that CMI has the caveat that you have to have an IMF program to draw. There are good reasons for that. I wonder what happens at a bigger scale, with credit risk within Latin America. Are we willing, from one country to the next country, to accept that great risk?

And the second comment is, I think rather than thinking on competing, we should try to pool these same sources. So why don't we think of how to put together, say, FLAR within a logic of an FCL, for example. There has been some talk about that, but I think it's pretty promising. At the end of the day, pooling has its logic. The bigger, the better.

Let me go to the report.

The report, besides not having this summary that I would like to have, it's a very interesting report, with a wealth of ideas. I have known Eduardo for many years, so I know the capacity of bringing things to the table, and this is no exception. And I will have to choose a couple of things to commend, but there are many interesting things here.

The two things I want to focus is the issue of policy space and the policy reaction that the report discusses. But I think I at least missed one link extra, at least to discuss, okay, what do you do now with the space you have? Because that's really the pressing question today.

And the second thing I want to discuss is the role of commodities. The report's a bit gloomy on commodities, in terms of saying, Oh, you have commodities, you are done. You cannot export the computers that the Asians do. It doesn't use these words but, really, You have a basket of exports that are really not great. And, second, it doesn't matter what you do with macro policies. Shocks will be very, very big.

By the way, I agree fully that external shocks matter a lot for the region, and I don't want to say that that's not key. But I want -- if anything, from the report, I have the impression, and I don't agree with the report, that policies matter more than what the report thinks they matter. (Inaudible), by the way, this paragraph where it says floating -- it's right around it, basically -- I think it matters a lot. I would try to argue that here.

Very quickly -- policy space. I pretty much agree with the report that the fiscal space is not huge. It has been spent, a bit of it. But I want to say that the financial space, emergency policy space, in particular, is pretty important. I just want to compare the Lehman event here in this graph, and the current event. They are very different. But on the left you have different indicators in Lehman and what has happened right now.

And the one thing that I want to point is that bond yields in the local markets have, instead of increasing a lot -- and we were in the market right about that time, looking how some (inaudible) sold off badly -- this time around they have dropped a lot. So it's very different to receive a shock and to see your local bonds in the domestic market increasing rates big-time from now dropping back.

Part of this is fiscal; part of this is monetary policy variability. Perhaps the shock is not big enough. But it's something that at least hints that the region is pretty well prepared. In fact, it passed the test last time.

A related issue with monetary policy is inflation expectations of monetary policy pre-crisis. If you remember last time, we were having the supply-side shocks from commodities. Inflation was pretty high. Many countries were running a bit late, the tightening. Inflation expectations were a bit the anchor.

This time around, the tightening was more on time. Inflation has been more contained. Inflation expectations better behaved.

So I think the space for monetary policy at least is not huge, but exists.

In terms of fiscal, the report -- and Eduardo discussed this already, so I will jump to what happened with the primary deficits and structural measures. Many countries have recovered to pre-crisis. Some others, not. We have done, of course, the dynamics. This is sort of the bread-and-butter of the Fund, so we're different scenarios.

Bottom line, you can withstand a pretty harsh shock, but debt will go up. So you have to be prepared to -- who will be buying that debt?

For an average country, let me just point, they're not very different. The first bar is where is debt today. The second bar is where is debt in the base line for us in (inaudible) five years' time. The other one is what happens with a negative shock that (inaudible)moves commodities growth, etc etc -- increases.

So bottom line, there is some space.

More interesting is how to use, and when to use, the space. And I think that's the question that policy-makers have to ask. First is a question of how much, and second is a question that is less trivial, that is sequencing.

How much -- we in the Fund have a very strong view that it's not time yet. If we knew that this were a V-shape problem like Lehman, display all what you have for a year, that's it. Because we don't know -- perhaps these are protracted several years' problem, perhaps commodities will tumble for a longer time. It's not time yet to use the space. In fact, we are recommending to rebuild more fiscal space, if anything.

That doesn't mean that you don't do anything? No, you can do some monetary policy. The logic of doing a lot of fiscal last time around, it was more global. It was the zero bound (inaudible 01:10:29) from monetary policy. Everybody said, okay, let's do fiscal globally. Today, that's not the case. We're not in the fiscal mood anymore, so I would be careful with that argument. .

Second, countries -- the bigger countries in this region -- have these inflation-targeting regimes working well. Let's look at the logic of that. If inflation forecasts start going down, use the monetary policy. If not, wait. Let automatic stabilizers on the side of fiscal work? Yeah, that's probably part of what you should do, unless you really have the dynamics that are not that great. And really display some discretionary spending only if the shock clarifies and is meaningful, so that this has some sense.

The experience with the last round of the 2008 and 9is that the fine-tuning was pretty difficult. Many countries expanded, but the inputs came a bit late. So when the governments () already recovered. And the withdrawal has been not perfect in all places. I mean, some cases are a bit traumatic -- that the inputs is still there.

So, really, really wait for that.

One thing that was mentioned in the presentation, and also in the previous comments, is that one risk that is there -- and all these calculations of structural positions do not take into account -- is commodity prices. We sort of bought that commodity prices are high, not at the current level, but minimally higher than 2002, 2003 for (inaudible). If we go back to those prices for a longer period, the space that I was showing you pretty much appears. And that's, I think, a big risk for the region. And that connects to China, et cetera, et cetera.

So, bottom line for this first issue -- we have a very strong view on sequencing. It's not obvious, the sequencing. I mean, we have a strong view, but I'm willing to accept that there are other views that may be logical on, say, look, given the exchange rate, do fiscal first -- et cetera, et cetera. Our idea is more this one.

Let me go to a second issue I want to comment. There is this sort of gloomy view about commodities. It's true that South America depends a lot on commodities. But I want to say two things about this.

First, a factual issue. If you look at the left-hand chart, that's South America in the >70s and today. How important are commodities? These are net commodity exports as percent of GDP. And they have gone up. And they're pretty important. And that's why I say, look, instead of leaving behind commodities, we are still dependent.

Mexico -- and Latin America was part of that -- the decline. Emerging Asia turned around from being exporter to an importer of commodities. But I want to point is that some advanced countries, like Australia, Canada, New Zealand, and Norway, have something that is not that different from what happened in Latin America. Perhaps it's a price issue here. Nobody knows, really.

But it's not sort of a failure that that happened. That's the first thing.

Second thing -- and this relates, again, to these countries -- we should discuss whether the pattern of development that we want, and the macro set-up, therefore, that we can sustain, is more similar to Asia, with their savings rates, or more to these Canada, New Zealand's, Australia's of the world.

I want to argue that the macro set-up and the pattern of development with more human capital, perhaps, and commodities is more appropriate for the region. To begin with, we don't have the savings rates of Asia. So any strategy that did that, those savings rates will not work. And by the way, some commodities here -- yes, soybeans, perhaps, are not super technology intensive. But if you go to mining, mining is not a trivial thing to do these days. It's super competitive. You have clusters in many metal countries that are very impressive. It's true it's not enough to have inclusive growth, et cetera, et cetera, and you need more things. But I wouldn't be that negative in terms of this. In the limit, let's throw the copper to the sea, if it's such a bad thing. And I think it's not the case.

Final point is that it matters a lot what you do with policies when you have commodities. Our last regional economic outlook, which competes with this -- but it's good to have competition, no? -- had a chapter on what happens with commodity prices shocks and growth. And really, really, this chart here -- well, let's start on the left -- is that we separate countries between good performers and bad performers when there are episodes of shock in terms of trade drops.

And, of course, if you separate countries, there are good performers and bad performers. So that the blue and red line are different there is not unexpected. The good guys grow and do not drop. The bad guys drop.

But it's interesting, going to this chart here, shows what happens in terms of trade. And they drop for everybody. So there is something there, that even with the same shock, some countries do well, and some countries do not do well.

And we go to nitty-gritty econometrics in this chapter. And the bottom line of that chapter is that policies matter. And if you have a shock like Lehman, you will grow less. Of course you will grow less. You have problems with world growth that will affect you. You will have VIX, and financial channels that the chapter discusses very well.

And in terms of trade shock, it will matter. On average, what happens in Lehman, it subtracted for the region about 2 percentage points of growth on average. But it matters a lot whether you have good policies or not. The variation of that, of having good policies or bad policies, is about 5 percentage points, almost 6 percentage points of difference -- between 5 and 6.

And what are good policies? Well, they are typical things. But two things I want to point here. One is, fiscal clearly matters a lot, where you spend the windfall. If you spent the windfall, expect more problems.

And second is flexibility in the exchange rate. Now, how to put together Peru, for example, where flexibility matters, and is a good thing if you are not too dollarized. If you are too dollarized, then flexibility starts to be a handicap.

So we'll score here that it's not the same regime for everybody, but for those countries that really do not have balance-sheet effects, flexibility really, really helps.

Thank you, and congratulations for the report.

Thanks. (Applause.)

MR. CASAS-ZAMORA: Thank you, Rodrigo.

Before we go back to the audience, I would just like to ask a very simple question from a non-economist. I mean, you mentioned the Peruvian minister who lights a candle every morning. I mean, what could make the candle go out?

MR. LEVY-YEYATI: Immediately, a hard landing. In China, for instance, if you have a financial crisis, like a bubble bursts or a peak of non-performing loans, and they have to -- remember, China has been implementing very strong and forceful monetary stimulus after the crisis. I mean, it was the only country where the government can actually pick up the phone and say, you know, increase, the credit to 30 percent or 40 percent. Actually this happens. You know, in the U.S. it took one year, in China it took 48 hours. But the problem is that they don't know where they are lending. So they might have a banking crisis. These type of things are, you know, the big scale that come from China. Other than that, I don't see any grace to a soft landing.

Now, over time, if they change their pattern, the gross pattern, then the (inaudible) of demand will change. But for that, I think we have more time.

MR. CASAS-ZAMORA: The floor is yours.

We have, let's say, 15 minutes to engage in Q&A. So -- shoot.

Here.

MS. JESUS-ANZARE (phonetic): (Inaudible) -- for a moment for the answer?

MR. CASAS-ZAMORA: Yes, (inaudible).

MS. JESUS-ANZARE: Can I bring it a little closer?

MR. CASAS-ZAMORA: And I would please ask you to identify yourselves before you ask your question.

MS. JESUS-ANZARE: Okay. My name is Vanessa Jesus- Gonzari. I'm a journalist from American University.

And my question was about -- you mentioned that basically China and a little trade integration, are some of the negative factors for the actual economic integration in Latin America. Could you go briefly back to that?

And is it just lack of agreements? Or just they're not effective enough -- UNASUR? What's really going on? Is it do we need something new, or just really to make them work, the ones that are already there?

MR. CASAS-ZAMORA: Perhaps we can take a few questions. I mean, let's take three or four.

MS. ESPINA (phonetic): Gloria Espina. And this is specifically to José Antonio.

José Antonio, you mentioned that integration in Central America may be happening, but not in South America.

My question would be, it is the fact that Central American countries are so small that they don't have any other possibility but trying to integrate themselves. As, on the contrary, you know, South American countries, they are very diversified, each one very independent from each other.

So I really would like you to elaborate a little bit on that.

Thank you.

MR. CASAS-ZAMORA: Yes.

MR. O'DONNELL (phonetic): Hi. For --

MR. CASAS-ZAMORA: Identify yourself.

MR. O'DONNELL: What's that?

MR. CASAS-ZAMORA: Please identify yourself.

MR. O'DONNELL: Oh -- yeah -- I'm Tom O'Donnell, the New School, Graduate in International Affairs. And it's a question for Eduardo.

You were saying that -- if you get just the -- I mean, I think I strongly agree with you about the exposure of Latin America to China, and the fluctuation -- if -- my specific question is, could you quantify a little bit? Like, do you have some idea how much would commodity prices -- soybean prices and so forth -- have to fall before there would be significant effects? I know it's kind of a particular question.

And beyond that, also -- for both you and Professor -- I understand why Venezuela is taken out as a special case, but if you could actually talk about it a little bit. What is the situation in Venezuela? And also their exposure.

MR. CASAS-ZAMORA: Let's take one more.

(Pause.)

Well -- Eduardo?

MR. LEVY-YEYATI: Yes, okay.

First a clarification. I don't think that trade is a, trade integration with China is bad. What I'm saying is that it may work as a dope, in the sense that if everybody is exporting primarily non-specialized, non-elaborated products to China, you don't need to integrate with each other. And what you see in Asia is essentially intra-industry trade which -- the industry is moving towards countries that are less developed and cheaper. But by doing that, it's generating an internal regional trade that, to some extent, supports activity within the region -- regardless of what is going on outside the region. So that creates like an internal engine.

That's also common in Europe. I mean, if you see Europe, have surplus and deficit countries, but overall the region is highly integrated at the intra-industry level -- which creates activity, in a sense.

If you export soybeans, you don't need anybody else, you just (inaudible) send it to China. So essentially, instead of looking at each other, they're looking at China. They're all looking at one country.

That ultimately will change. I mean, you cannot expect China to keep, you know, demanding this degree of -- these volumes of soybeans, or keeping the same growth pattern forever. And I don't see the countries really -- I see them worried, but I don't see them preparing themselves, bracing themselves for a change in the growth pattern in China.

So it's not that it's bad, but you have to exploit it, and you have to exploit it in a way that actually helps you build on that. For instance, going back to the case of Australia, I mean, it's true that Australia exports a lot to Japan, to China. But if you look at the composition of the primary exports, the natural resource-intensive exports to China, they're more elaborated, the Australian ones.

Ours are just the bean. So it's rather limited.

So in a sense, it's not bad or good. I mean, I wouldn't go that far. But I'd say that you cannot just sit on that and think you are going to live on that forever.

And quantifying the exposure? You can do that, but it would be really unreliable. I mean, we tried to do that, but, you know, China hasn't had a cycle for ages. I mean, we look at the growth rate. I mean, it really doesn't move a lot.

It moved -- you can use industrial production -- just to be a little bit more technical, the industrial production actually went down during the crisis very rapidly, so you can actually get some identification there. But really, I mean, you can say it's relevant, it's significant, but really getting to the point (inaudible) made, I wouldn't go that far.

MR. OCAMPO: No, I -- perhaps on this point, you know, my next to the last slide pointed out that, you know, I guess in relation to Rodrigo's comment, that I don't think natural resource specialization, as such, is bad. But what Latin America -- my point is, Latin America, in terms of technological development relative to the industrial countries that are specialized in natural resources, looks terrible. That's the point. So I think it tends to reinforce the point that Eduardo just pointed out.

I think that's the problem. The problem is that if we want to have natural resource-based specialization, we have to rethink many things, in my view anyway.

Now, on integration, the issue of Central America -- here, of course, we have a former Vice President of Costa Rica who can testify that Central America really tried to mess it up, this integration process, in the past. I mean, it started very well in the 1960s, and then it went into total disarray, you know, for 15 years.

So it's not a question of size. And it finally has been building up its integration process again, and it's working. I mean you see, for instance, during the Lehman crisis, you know, look at the reports on trade, actually the best performing, you know -- aside from exports to China -- was intra-Central America trade -- okay?

So they have been building. You know, they have a firm commitment again to building integration.

In South America, it really has varied significantly. The >90s were much better, I think, in terms of building intra-regional trade. Then the late 1990s let to, essentially, a collapse of most of the bilateral, major bilateral trade flows. And then we never went back to rebuilding the integration process. Politically they are really blocked. And it's one of the dimensions, with this, let's say, the political divisions in South America has really hurt negatively.

Now, I see that Eduardo avoided the question of Venezuela but (laughs) -- no, I just want to point out, I think the chapter on Venezuela which is, you know, I think more or less correct, has one basic mistake. So it said that -- I even have the quote here somewhere -- that, Chavez -- versus more profitable economic model implemented during previous decades. I think that's fundamentally wrong.

Venezuela has been doing badly since the late 1970s. So, I mean, its per capita GDP is still below -- I think the peak was 1977. So Venezuela is a long-term process. In that long-term, very bad economic performance, you know, the Chavez years don't look particularly bad, actually. It looks, actually, a bit better. (Laughs.)

SPEAKER: (Inaudible) more.

MR. OCAMPO: Okay. And secondly -- which again relates to one point -- I mean, I didn't show carefully my -- but one of the problems of Venezuela which, you know, we the neighbors have suffered is the pro-cyclicality of Venezuela.

It's the most pro-cyclical economic management of all of Latin America. So during boom years -- now, this is not Chavez. This has always been Venezuela. So, again, it's a very long-term pattern of Venezuela. So during booms, they spend a lot.

During crisis, of course, they are left without resources and they have to a very severe adjustment.

So it's the most procyclical macroeconomic pattern. And that's what shows my data. I mean, in terms of fiscal spending, for example, it's the most procyclical fiscal policy of all of Latin America.

So I totally agree. You know, when you have commodities, the first thing you have to do is to learn to manage a commodity price boom -- in fiscal terms.

MR. CASAS-ZAMORA: Rodrigo, the last word?

SPEAKER: I have a question for Rodrigo -- sorry. Because I mentioned the collaboration between the Latin American Reserve Fund and the IMF -- which is something that we suggest, actually. Because we need a lender of last resort and that would be you.

The problem is, the IMF always have -- or the Fed -- most of them are unlikely. But the problem with the IMF is that they always require some degree of eligibility that is always contingent on board approval. If you can get rid of that, then that would be the place where a lot of it could possibly go.

But how can you get rid of that?

MR. VALDÉS: Yes, you point to a -- well, first, I should be making the questions to you. (Laughter.) You have written extensively on this problem of how to have less stigma. And one way is this list -- no? But that also has it's problems. In fact, it's not popular in the constituency. There are no votes to go that way.

And also, I think it's pretty difficult to manage, when you have to change someone from eligibility, I would imagine super stressful episode for the Fund, for the country, et cetera.

But you're right that it's not trivial how to make the pooling with others. But the FCL is working. I would imagine -- and the PCL was there. Perhaps a mini-PCL, which you -- I mean, there are different ways to imagine this.

But I would say that the pre-qualification is more unrealistic as a solution going forward. That's the reality that I see in the discussion.

MR. CASAS-ZAMORA: Well, thank you very much. That was terrific.

Please give a round of applause to our speakers. (Applause.)

And we move straight away to the second panel, Is Latin America Ready to Act as a Region?

MR. LEVY-YEYATI: We're going to start this second panel that was motivated by the question about Latin America as a region, but I think we open it to many additional questions I have prepared here. It was to make it informal and to exploit the vast experience of our panelists as observers and investors from the perspective of the private markets. I think that's something that's extremely rich and I have a bunch of questions here for them.

But just to motivate we have asked Arturo Porzecanski to give us an introduction, 5 to 10 minutes, about -- that sort of frames the discussion around this topic. Arturo, please, if you can. Thank you.

MR. PORZECANSKI: So thank you very much for the invitation and congratulations on getting the report out. I know that it was difficult because you lost your co-author to Colombia, so there was a lot of last-minute scrambling, I'm sure.

But anyway, so the question you asked us to address, is Latin America ready to act as a region, and in your report you kind of have in mind like two regions actually, right? You have let's say the South American raw material exporter and the Mexican-Central American-Caribbean commodities importer kind of in mind. And so let me give you the answer. Is either Latin America or the two sub regions are ready to act as a joint unit? My answer is no, and I'm glad. I find that a lot of regional or sub regional solutions are not efficient, that individual or global solutions are the most efficient. You know, not only do you have the risk of trade diversion whenever you have any preferential trade agreement, but you have equivalent of trade diversion whenever you have any other kind of sub regional agreement. And actually there are a lot of benefits of differentiation.

I don't think that if you are in a region you want to be held hostage to what happens in some neighboring country because, you know, suppose something -- we lived through that, right. Mexico gets into trouble or Argentina gets into trouble or Brazil gets into trouble, and everybody gets tarred with, you know, with the same brush. Look at what's happening in Europe, right?

So I think that there's a lot of downside to regional or sub regional solutions, and that's not discussed in the report and that's fine. Let this be the beginning of the conversation. But so the answer is no and personally I'm glad.

Now, what's the significance of that and why not? So, first of all, we're out of time. I mean, if the idea is to take some collective action so that, you know, if this European thing gets worse and worse, or if China stalls, it doesn't matter because it takes so many years for Latin American countries or the Asian countries or the European countries to build anything, you know, like the kinds of things that you are discussing that we're out of time. You know, many one or two crises from now we can have some sub regional or regional solution ready, but in terms of, you know, 2012, 2013, I think it's irrelevant. It is what it is. We have the cards that we can play and there are no others.

The other reason why Latin America is not ready to act as a region other than it doesn't have time, it can't move fast enough, is it's just not a political priority. I'm an economist, so what do I know, but that's the impression I get. If we had one regional leader or let's say one person with regional projection and regional ambition it as Hugo Chavez. He was a true regionalist and, you know, he has problems: health problems and economic problems. (Laughter) So I think that we're missing the cheerleader of his vision of Bolivarian regionalism. So for those who want a regional or sub regional project that's a problem, I guess. For me, it's a solution.

And then the other political leaders are very busy with what's going on at home. So, for instance, we have elections coming up in Mexico. We have elections even coming up in Venezuela and so on. So those political leaders are not ready, the outgoing ones or certainly and probably not the incoming ones, they're not ready to take up the regional torch and run with it. And the others are mostly weighed down with domestic issues, you know, whether it's Chile, where the students have been rioting in the streets for months now, or in Brazil, where there have been one scandal after the other, and so on. And, you know, there's a lot of issues at home. So I don't see the political leadership that we have in either sub region spending a lot of time thinking about sub regional or regional solutions, or they're technocrats being allowed to engage in such wishful thinking. And so I think it's just not on the radar screen.

The other thing is we have to remember we still have a legacy of intraregional rivalries. You know, there's the Argentina-Brazil thing and there's the Brazil and Mexico rivalry and there's the Colombia and Venezuela rivalry and there's the Ecuador and Peru rivalry and so on. And so I think a lot of these rivalries militate against, for instance, somebody being the issuer or lender of last resort because I think in general people don't want other people's problems, they want to solve them on their own or with some outside partner, like the United States or so.

So I think the intraregional rivalries should not be forgotten about. And let me give you a concrete example of where I think it showed up recently.

As you know, the managing director of the IMF recently had to resign in a hurry and there was an opening. And there was a question, you know, could there be a non-French candidate? And, of course, a French candidate appeared immediately. And the question was were the emerging markets going to present at least one or two alternatives? And nobody raised their hand right away, but eventually probably the U.S. Government and others prevailed on Mexico to raise its hand, and they put forth Agustine Carstens as a potential candidate and he was a very find candidate. I don't think he would have won in any case. I think that Lagarde would have gotten the job anyway. But there was an opportunity for at least the other Latin Americans to say, yeah, you know, finally.

You know, the Europeans rallied around a Spanish candidate for the managing director job not too long ago and there are, you know, the current president of the ECB is an Italian and so on. I mean, they've rallied around no matter the nationality for the sake of a regional project. But, you know, the Brazilians were totally conflicted. They never came out in support of Agustin Carstens. And why not? Probably because he was a Mexican and not a Brazilian, simple as that. Of course, the fact that he was a Chicago boy probably didn't help. But in any case, you know, Guido Mantega wants to be the next MD. And so I think that, you know, we have there a very good example of where push comes to shove, you know, all that Latin American solidarity is good for nothing.

And then finally, the issue that you pointed out, that whatever agreement you need, especially if there's going to be money on the table, and he's a lender or an issuer of last resort, and it has to be a very deep-pocketed one and it has to be one that imposes conditionality because otherwise the money's not going to be paid back. And it has to be somebody who is either AAA rated or almost because otherwise they're not going to be able to raise the requisite money in the markets. Look at what's happening in Europe.

So, you know, the IMF is doing a good job. I think that if the Europeans had called in the IMF much earlier than they did, we wouldn't be where we are. They tried to have a regional solution and it's a complete mess. So let's learn from the European experience and my vote goes for individual solutions or global solutions, not for regional solutions.

MR. LEVY-YEYATI: Okay, thank you, Arturo. Now I have to take the other position to keep this ball running.

I'd like to say a couple of things before leaving the floor to Alberto, who has all the answers. There are more the one definition about the region, right? And in the report we tried two of them: you know, trade integration and financial integration. So, you know, two issues that you actually touched in your speech. And they seem to be rule elsewhere. I mean, if you look at Asia and Europe, although you post (phonetic) a negative tone on that. If you just look at what's going on in the world, it looks like there isn't a trend towards regionalization, both of the financial solutions (inaudible) problems and let's say, you know, a nation's monetary fund is not far from -- far in the future, and I think that Europe's are moving in that direction.

And also if you look at trade partners, I think they have been intensifying in many quarters despite (inaudible). I mean, you cannot say that the Haitians actually love each other more than the Latin Americans and, you know, what can we say about the Europeans? So I think there is some political argument behind this that goes beyond, you know, sympathies, you know, pro-country sympathies. So there is a question whether in fact, despite all you have said, the world's moving towards rationalization. In that case, Latin America is losing or gaining by staying behind from that trend.

Now, one thing that always -- (inaudible) was working on Wall Street always say -- look curious to me is how private observers, analysts, private investors tend to think of groups of countries that are, well, very, very heterogeneous as regions and try to analyze this within groups, you know, and try to find patterns. So you have like the Latin American desk and you have the emerging Asian desk and the emerging Europe desk.

So now I have two -- well, actually three, because Arturo's almost like the dean of emerging markets here, but two qualified observers here from the market. Alberto is head of many things in Tudor Investment. And Tudor is one of the -- you know, for the best, also the biggest hedge funds in the industry. So I had a question for him just to -- I know he has some answers to other questions, but I still want to ask both you and Luis from an investor perspective, from a foreign investor perspective, to what extent and why the regions tend to be seen as a region? You know, you look at Latin America, as you look at emerging markets in China, without the common factors you see there, whether the region is starting to look more heterogeneous and to what extent this is gravitating towards being consider particular, individual countries. And ultimately, how do they look as a region? What is a common pattern that you see and how you see these evolving?

And with that, I am leaving -- defer to you, Alberto, so that you can illuminate me on this.

MR. MUSALEM: Thank you, Eduardo, and congratulations on a very nice paper. For those of you that don't, Eduardo and I went to university together and he was always the better student and always kept me on my feet. This time was no different. First he invited me and said you don't have to prepare a PowerPoint. Then I got here and I saw that everyone had a PowerPoint. (Laughter) Then I felt pointless and powerless.

Then I got up here and he said, well, you don't need a PowerPoint, which made me happy. And he said, but I'm going to ask you a bunch of questions, which made me sad again. (Laughter) So he's always kept me on my feet and hasn't changed in 20 years, but thank you for the invitation.

The answer to the question what degree of differentiation do investors attach to Latin America or emerging markets more generally, I think there's a simple answer. It is that investors are generally lazy. And because they are lazy -- or time constraints, you know, they can only absorb a certain amount of information per day or per week or per hour -- they tend not to differentiate and they tend to operate under heuristic rules of thumb. Those are the -- that's the average investor. Of course there are the very good investors that differentiate and there are the very bad investors that just invest in E-M. And E-M means everything, right? From Indonesia to Guatemala, right? The whole thing.

That strategy, that lazy strategy, the E-M strategy, works very well in times like the ones we're living in now where everything's very correlated, doing the idiosyncratic country work, you know, understanding the cyclically adjusted, commodity adjusted fiscal position of Brazil versus the cyclically adjusted, fiscally adjusted position of Russia. It doesn't matter, right, because the overall movements of markets at these locations that we're living don't matter. So people get lazy and they start investing or trading E-M, the all-encompassing E-M.

In good times, when things are calmer, there is a lot of differentiation, people do invest relative value in a relative sense. So it depends on what regime you're in. A very volatile regime, it doesn't pay to do the idiosyncratic work. In the calmer times, it does pay. And unfortunately, people get lazy in the stressful times of the world and they start trading E-M, and then when things get good, they forget. And so that's the answer, I think.

MR. LEVY-YEYATI: Luis?

MR. BONNELL: I mean, from Liberty Mutual we have a large international operation, so we have different regions. We have one region in Asia and we have one region in Europe and we have one region in Latin America. So Latin America for us, first thing, is a region. And reality is that today it has a low level of integration and I'm not discovering anything new, and much lower than in Asia and much lower than in Europe. Me as a European, I'm quite surprised by this because I think there are a lot of benefits towards getting more integration, but this is a reality. And certainly the area shares many commonalities, much more than in Asia and much more in many parts of Europe, so I think there is a tremendous opportunity towards more integration.

And my personal opinion is that on the macroeconomic level and in trying to build regional institutions in a world which becomes more global -- and this is important that this is a personal opinion -- but, I mean, there is the macroeconomic level and this is the micro level in the business and could be the opportunities that we see in the business. And certainly in the business I think there are a lot of opportunities about looking at Latin America as a region and trying to understand that particular geography as a region. And because we can move resources from places to some others, we can move expertise from some places to some others. And I think there is, on the business side, there is opportunity at approaching Latin America as a region, and this is what we do. And so far, I mean, this is paying well. And so if this is something that we do as a business, and the question is, you know, what about other industries or what about, too, at a micro level?

And just one last thing. And as investors, I mean, we invest in insurance. And more than invest, we manage insurance companies. Our view is long term and our business is very much tied to the middle class. And we take a long-term view and we don't have the panic that other types of investors, and certainly financial investors, look at the situation when there is a crisis. We tend to have a much longer-term view. And, of course, this gives us a different perspective about the current situation.

MR. LEVY-YEYATI: Okay. But related to that question is something that I think Alberto hinted at this idea of the role of fundamentals, right? I mean, typically the macro analysts would go over the fundamentals of the country, try to figure out where the country would fail related to others. And it's true that during the crisis this is -- (inaudible) this has been so -- even before the crisis, I mean, if you look correlations in year 2006, 2007, Latin America correlations of asset prices -- not real assets, which probably Liberty is investing in, but the asset prices -- you know, the financial assets in centralized markets were increasingly incredibly high. I mean, ebitdas), as we call it, the correlation with whatever is going on in the rest of the markets were incredibly high, which, again, begs the question of, well, you know, whether actual fundamentals matter.

Where do you think fundamentals will enter your investment decision?

MR. MUSALEM: Yeah, I'd like to dispute the fact pattern that you outlined. So there's a short-term correlation and there's long-run correlation, right? The long-run correlation during 2003, 2007 or '08, was clearly very low, meaning there was this notion that emerging markets had decoupled. Right? We have lower demographics, our fiscal balances had improved, all the stuff you heard in the previous presentation, right: the countercyclical monetary and fiscal policy that could now be deployed, reserved balances had been increased, governments had seen the light, macro management had improved, and all that. So there was a nation that there was -- the long-term beta had declined. In fact, you saw that, right? That's why you saw this massive flow of money into emerging markets.

Up and until as late as August of 2008, after Bear Stearns had failed and it was clear the U.S. was going to go into a very deep recession, there was still, I would say, at least 60 or 70 percent of the investor based would still tell you that emerging markets was decoupled. The long-run beta, right? And they were forgetting about the short-run beta. And the short-run beta is about all the stuff that the previous panel talked about, you know, capital inflows, cyclically adjusted current accounts, adjusted for commodities, all that stuff. And that's the answer.

The answer is that the long run -- I think in the long run we are still decoupled, right? And the fundamental work there matters. In the short run, however -- "short run" defined as a year or two -- we're not decoupled because whether it's Latin America or it's Eastern Europe which is going through turmoil right now because of the proximity to Europe, capital flows matter; capital flows whether it's hot money portfolio inflows or whether it's real economy trade finance, which we saw dry up in 2008/2009 and is beginning to see some tensions now also with the European bank (inaudible). That matters in the short run.

So I don't know if I answered the question, but that's the thought process anyway.

MR. LEVY-YEYATI: Well, it's one answer. It's one answer. I remember the first piece I wrote -- one of the first -- when I went to work with Barclays was on decoupling. I was trying to make the point there was a coupling for this and for that, and it was around mid-2008.

MR. MUSALEM: You were one of those 70 percent guys.

MR. LEVY-YEYATI: Exactly, yes. (Laughter) Yes. And then I had to rewrite the piece many, many times. And honestly, at this point, I started to ask myself whether this pre-crisis period was an epiphenomenon since it will never happen again or this very long crisis is going to end and we will get back to the decoupling). But honestly, the long-term IBTIDAS) actually still look very high if you compute it including the whole period.

But in any case, why aren't these long -- short-term EBITADS(inaudible), a short-term correlation you mentioned is so high? Why is it that everybody sell Latin America or emerging markets when there is some real (phonetic) panic? And don't tell me about technocrats because it's only position. And I think everybody is looking at this country and saying this is risk and we have to shy away from them. It's a question for all three of you. I think you have a different answer, Luis, but I think it's a key question. Why are we so far from being reserve countries after having done so much to look like them?

MR. BONNELL: Again, my approach is I can't comment much about the short-term views and certainly people panic about Latin America, but people panic today even about France and about many different environments. So I think one thing, again, is this short term, which is very much influenced by panic and perceptions. And another view is sort of the long-term. And what we see, and again our business is for the middle class and we try to estimate how middle class will grow over time, and in insurance what we're seeing is a lot of strong appetite towards the region. I mean, we're seeing a lot of competitors in the non-life area, which is our business, that have a lot of appetite to the region and they're willing to pay high prices to get into these markets. Again, the view is a long-term view, so I think there is high expectations that they can get good returns in insurance taking a long term view.

MR. LEVY-YEYATI: Arturo, do you agree?

MR. PORZECANSKI: Yeah, I would say that sometimes there's coupling and sometimes there's decoupling, and that's okay. And partly it depends whether people have the time or the horizon or the money to take the long-term view. When the news is really good or really bad, you know, as Alberto was saying, people tend to trade differently. The trend is their friend, whether up or down. In calmer situations, investors begin to differentiate and so on.

But clearly, we've seen a bit of everything in recent years. There was a time when, until mid-'08, because commodity prices were high and interest rates in Japan, North America, and Europe were low, and most governments were doing the sensible thing, tons of money went into the emerging markets. Then the music stopped. But within six or so months, money was again going to the emerging markets and that went on until around August, when people began to worry about the European thing spinning out of control. And as you know, take a look at currencies or stock markets or bond yields or whatever, we're not as high as we were, we're not as low as we were. We're someplace -- I think investors right now don't know what is going to happen next. And that's why the news every day impacts all of the markets because investors are moving without conviction. We don't know if we've reached bottom; for instance, on the European thing, they're going to finally get their act together or if this thing is going to spread all the way into Northern Europe. So in that situation all the assets become much more correlated and you get all kinds of things.

So, I think that's fine. Even ourselves in our everyday behavior, sometimes we do what the Joneses do and sometime we try to strike a more individualistic pose. But obviously, when people are running because the building is on fire, you know, everything's going to be correlated. It takes quieter times for people to develop or put forth their more individualistic positions.

MR. MUSALEM: Also one thing, Eduardo, the two recent shocks that we've lived haven't been just a run-of-the-mill recession, right, in the U.S. It was the most severe financial crisis since the Depression. It may still well turn into a Depression, who knows, right? So to think that the beta would have been low in that circumstance, you'd have to on Mars, right? That's the only way to really decouple.

These were and are severe shocks, absolutely severe shocks. I think considering, you know, I think emerging markets have fared fairly well. Whether China can repeat its 2008/2009, you know, 30 percent of GDP credit expansion -- that was the main reason why emerging markets did well or recovered well -- you know, remains to be seen. Some people say yes, some people say no.

But, I mean, these are monumental shocks. This wasn't the 2000/2001 recession, right, which was a very mild recession. This was a monumental shock. So it'd be too hopeful to think that -- you know, no correlation.

MR. LEVY-YEYATI: No, no, I know. I was not thinking of a Lehman shock, it was a panic. I'm thinking more on the past two years when you have like a continuous high volatility scenario in which there is not a particular trigger. You don't have compression yet. You have a growing or persistently high correlation between asset classes and particularly, you know, the capital flows that are going out of these countries whenever there is increasing risk and going into the countries whenever there is a decline in risk aversion as though these countries were the risky game in town, where, you know, if you look at fundamentals they don't look like that.

So maybe the natural question would be for the three of you, particularly for you which is always trying to, you know, take the other position, what would it take -- I mean, in terms of, I don't know, you can call it graduation, what will it take for these countries to stop being thought of as a risk asset or risky countries and being, you know, advocated or rejected according to the risk cycle as they are currently? What are the variables that you should see or is it just a simpler (inaudible), you know, people have to start thinking about this in a way so that, you know, (inaudible) forces itself?

MR. MUSALEM: Okay. In today's world where the risk-free assets is in question, right, I think it's much easier for emerging markets to graduate because graduation is a relative term. And what used to be perceived as a risk-free asset or set of countries definitely is changing, right? And today Brazil got upgraded once again, a credit upgrade, while we see in Europe they're getting downgraded every other week. So pretty soon, under lots of relative terms, some emerging markets have graduated and will continue to graduate.

So I think it's just a -- you know, what to do was your question, I would just do more of the same, and "more of the same" meaning -- well, the countries that have done it; some haven't -- you know, making sure you're not spending everything in the good years. The earlier panel said, and I agree 100 percent, that we did in Latin America, in particular, spend a lot of the windfall. Current account adjusted for commodities was put up, but I would have loved to have seen fiscal accounts adjusted for commodities rather than just a business cycle. That would look really scary, right?

And so we could have done a little better there. I think everyone knows, I mean, everyone's repeated here that that's the weak point of Latin America in this cycle, but, you know, good nominal anchors, good monetary policy, good fiscal policy, countercyclical policy as much as you can. I believe in flexible exchange rates, although I believe in them when there isn't one member of the global community, which in this case is China, is completely rigging the entire system. And that's -- you know, maybe flexible exchange rates have a -- there's a limit to which you can use them in this kind of general equilibrium sense that we're living in now.

So, you know, try to do what we did in the previous cycle -- "previous cycle" meaning the last seven to eight years -- but do a bit better next time in saving the surpluses a bit more. That's what I would suggest.

MR. LEVY-YEYATI: Luis, what would you like to see in these countries where you have exposure to feel a more comfortable about them in terms of the riskiness?

MR. BONNELL: I think, again --

SPEAKER: (inaudible)

MR. BONNELL: I think, again, I mean, the whole area has a full agenda. Half has been done; there is a lot still to do. But if we look at the problems of the region and we compare to the problems in Europe or we compare to the problems also in other parts of the world, I think the size of the problems are manageable as long as there is a continued agenda of improvement. So I think, again, it will look medium term and certainly the world is changing, the regions are changing, and if there is a continuous agenda of good governance I don't see any reason why the risk premium for the region should be at the current level. I mean, it should go down over time. I mean, here we are quite optimistic about the medium-term prospect.

MR. LEVY-YEYATI: Arturo, you tend to be pessimistic here at the table.

MR. MUSALEM: No, no. No, I'll pass. I'll wait for your next question.

MR. LEVY-YEYATI: Okay. No, I wanted to open the questions to the floor, for questions. Kevin, you have one to ask. You don't have a mic.

MR. CASAS-ZAMORA: It doesn't really matter.

MR. LEVY-YEYATI: You can speak up. Here it comes.

MR. CASAS-ZAMORA: I'm going to ask a question inevitably about politics. I mean, we know almost for a fact that from the economic standpoint, as Alberto put it very well, most investors are either lazy or, you know, time-challenged or whatever. So they tend not to differentiate, at least, you know, a good chunk of them. But I wonder if the same applies to politics. I mean, to what extent are investors attuned to different realities of the political gain in the different countries? And that becomes a criteria to differentiate between countries rather than the behavior of either the economic conjuncture or economic fundamentals. So that's a question for the three of them.

MR. PORZECANSKI: I would just start. I mean, I think politicians are very short-term minded, too. They also are time-challenged and whatever else. So, you know, maybe you have blind leading the blind here, but that is a problem. And maybe that's why some bigger picture solutions, regional or beyond the region, are so scarce because most political leaders, as I mentioned, they're very -- you know, if all politics is local that also applies in a lot of Latin American countries. So I think we are missing the big picture kind of visionaries who either want to reform their own countries or want to reform part of the region in a fairly substantial way. So for the most part, we just see marginal changes and, you know, there's nothing wrong with that if all the marginal changes go in the same direction.

The good thing about Latin America is that in the last 15 or so years, we've been making incremental changes mostly in the same direction, in the direction of improving things: improving the business climate, improving the rules of the change, increasing accountability and transparency and so on. The problem in prior decades was it was, you know, two steps forward and three steps backward, and, you know, it was constant change in incentives, in the friendliness or unfriendliness of economic policies in the essential rules of the game, and so on that weakened the institutions, that shortened everybody's horizons, and we know what happened. It just encouraged hyperinflation, capital flight, and so on and so forth.

So I think certainly investors are keenly aware that politicians are short-term minded and, you know, we have to take that into consideration. I mean, take this weekend, right? President Obama goes to Hawaii and says, oh, you know, we should build some kind of, you know, free trade partnership in Asia and all that. I mean, look what it took to get the no-brainer deals done with Colombia and Panama and Korea, right? And the guy's a lame duck. He can't get anything done in Congress.

So still, you know, so if you're an investor and you look at that, of course you're going to discount it. You're going to say like what a great idea maybe for the next president, but, you know. So I think, yeah, you have to look at politicians' horizons and what is their ability to deliver within the time horizon that you care about. If you're a very long-term investor, you want to see the long-term trend going in the right direction, maybe you're not that much concerned about ups and downs in any particular year. If you're more of a short-term investor, you have to show your accounts quarterly at least, if not daily, of course you're going to care about the up and down blips, political news and otherwise, very much.

MR. BONNELL: I think as a short-term investor, I mean, what we've seen, I mean, in several countries, in Chile and Brazil, are countries where government has changed and they have been able to continue in the right track, so it gives trust, confidence. It's not about a caring (phonetic) government. And there is the ability to change and to continue to be on the right track. So, I mean, this is quite positive. So I think Chile and Brazil here are very good examples of many and several consecutive years of basically sound policies and would like to see more of that, of course. And some other countries are certainly far away, so let's hope that this long-term view and this ability to change and to continue doing something which is consistent, I mean, I think it's a hope, but I think we have some good examples here.

MR. MUSALEM: Let me recant something I said. Investors aren't lazy, there's just time-constraint, right?

MR. LEVY-YEYATI: They're rushing and inattentive.

MR. MUSALEM: Exactly, yeah. So when I said fundamentals, I wrapped politics into it. You know, think of you're analyzing a company you'd like to invest in, you know, you'd like to know the numbers of the country, but you also want to know who the management is and, you know, it's the same set of analytics.

A great example of, you know, politics driving markets entirely is Brazil 2002, 2003, 2004. Right? It was all about politics, so investors are extremely attentive, right? And every time Lula sneezed, you know, it moved the market 100 basis points, right? And so politics is a huge driver, or in Russia when you had the Putin transition. So it's -- people look at it all the time, yeah.

MR. CASAS-ZAMORA: I'll give you a variation (phonetic) if you accept that, you know, that matters to me as a (inaudible) lover. I sometimes wonder -- you know, I'll put a very, you know, even nasty example, if you wish, I mean, just for the sake of the argument. If Guatemala comes down in flames, does that affect the behavior of investors towards Costa Rica? Very concrete example. Do they care?

SPEAKER: They care (inaudible). (Laughter)

MR. MUSALEM: That's a tough question. So I don't invest in either country, but let me give -- it's just not in our mandate. But let me give the example of Uruguay and Argentina, all right, which is similar, right? So when Argentina went up in flames, you know, people -- it took them a while to figure out that Uruguay was about to go up in flames, right? And even when Brazil had its big devaluation and a near bank holiday and a near, you know, near collapse in '98 to 2000, it took people about a year to figure out that that was the mortal -- or one of the mortal blows Argentina a year later. Right? It was the biggest trading partner had just devalued its real exchange rate by 50 percent. That was it, right? Or one of the blows. So it takes people some time to realize, but eventually they figure it out, so.

SPEAKER: Good afternoon, ladies and gentlemen. My name Rosemary Segero. I'm the president of Segeros International Group. My question is looking at you as investors with the world economy in America and Europe and all over the world, what would you advise countries despite of political difference or problems or whatever? Because (inaudible) are what has to be done. What do you advise Congress from America, Africa -- I come from Kenya, but I came to listen to you -- what do you -- what will be the best investment to invest in a country and in people and with what? So how would you do it as investors?

MR. LEVY-YEYATI: Can we take -- maybe we take two or three questions together because we have so many hands. There is one there.

MS. HAYES: I'm Margaret Daley Hayes (phonetic) and I'm a political scientist. It seems to me in both of the panels while talking about Latin America as a region and response to the recent crisis and so forth we haven't talked about both private sector activities, investments in other countries and, particularly in South America where it's more difficult, the creation of infrastructure that indeed is beginning but maybe it'll take 10 years to link, say, West Coast and East Coast, North and South. A lot of this infrastructure development is being promoted by the Brazilian National Development Bank, but roads from Brazil to Peru, the greater development and presence of both Brazil and Colombia in the northwest part of Colombia, a desire to leverage Brazilian defense industry to connect the defense industries of all of the region. In other -- and all of these are job-creating investments perhaps that complement and, in the long term, supplement the commodities income and so forth.

So are we, as we look at regions -- and I'm not sure that Latin America's a region, but I think Central America and perhaps Northern South and Southern South America might be viable regions, et cetera -- when we look at just the macroeconomics and even some of the political fluctuations are we missing the microeconomic behavior of major corporations, like Odebrecht and others across the region that are creating the infrastructure that may make it possible to behave more as a region in the future?

SPEAKER: The previous speaker basically asked my question. I was a little more (inaudible). (Laughter)

MR. LEVY-YEYATI: Any other question? We'll also take those.

MR. BONNELL: Okay. Here, I mean, about investments that governments can do, I mean, certainly, I mean, one of them is infrastructure. And I think infrastructure it would take Latin American region, I mean, to invest in infrastructure. I think this has clear returns in many areas, also in achieving a much greater level of integration. I mean, sometimes it may be more powerful a road in opening borders between countries than politicians trying to gather at a summit. And certainly the level of infrastructure in Latin America is quite poor, is very low. There is a big need for building much more. And I think this could generate much more. In addition to the economic benefits that this will drive, will drive also a lot of trade benefits, I mean, to the whole region. So I think I fully agree with you, infrastructure is one of them. And infrastructure, also, I think is part of the answer about the type of investments that some -- and you're coming from Africa.

And the other one is human capital. And this is another area where I think Latin America, I mean, can do a lot in improving the human capital investment in other parts of the world, and especially in Africa, I mean, and this will have, I mean, very high returns. Again, it's a long-term view.

MR. MUSALEM: I echo what you said. And the slide that was put up in the earlier panel on the number of patents in Latin America, relative patents in Latin America, absolute and relative, is just, you know, point of evidence in terms of the low amount of human capital we do have and the enormous room for improvement. That's -- you know, notwithstanding the improvement made in Brazil on reducing inequality and improving human quality of the past eight years, there's still a lot to do. And that's -- you know, if you have the human capital, you can then build the infrastructure. But if you have the infrastructure, you may not have the human capital.

MR. CASAS-ZAMORA: Can I ask another question?

MR. LEVY-YEYATI: Of course.

MR. CASAS-ZAMORA: Sorry. You know, throughout the discussion, I mean, not just in this panel, but particularly actually the previous panel, there has been a lot of talk about integration and the importance of integration as one of the, you know, responses to the economic slowdown. What I haven't heard throughout the discussion is the issue of policy coordination. I mean, is policy coordination at any level possible in Latin America these days?

MR. BONNELL: I keep shifting the question that way, so maybe Arturo answers.

MR. PORZECANSKI: I would say that policy coordination has gone out of style in the world. You know, there was a time -- I think you're old enough to remember maybe -- in the '80s, you know, the U.S. would coordinate with Japan and with Europe whether, you know, to intervene to drive the dollar down or up and, you know, there'd be a -- coordination was in. Dealing with the Third World debt crisis and whatever, there was a lot of coordination. But I think coordination has, you know -- poor Fred Bergsten, he misses it, you know, it went out of style. I think what we've seen more and more is individual action, and more and more of a consensus on what needs to be done even if it's not on a coordinated basis. I think that politicians, policymakers have learned a lot about what works, what doesn't work, what's doable, what's not doable, what's the proper sequence, what's the improper sequence, what are some of the, you know, good outcomes, what are some of the bad, what are some of the market failures that justify government intervention, and what are the things that the market knows best so that what the government should do is get out of the way of the markets and encourage the private sector to do its thing.

So it's a little bit like the question about, you know, do we need regional solutions? Do we need policy coordination? If you ask me, no, we need individual actors in the pursuit of their own well-being to do the right thing. And for the most part, in Latin America, you know, for the most part, we're seeing that. Even those who are following populist policies, like in Nicaragua or Venezuela or Ecuador or Bolivia or Argentina, are doing so because until now they've had the money to do it. It's not been the wisest policy, but you can explain that, okay, if you are just very short-term oriented and you believe in redistributing wealth and you don't care if the pie grows, it's just you mostly care about how it's cut up, then, you know, you're doing what you're doing.

But in general, I would say, again, I don't see why we need policy coordination. You need it if you're in the euro zone. You see, that's the problem. You need it there, right? Because that chain is as weak as its weakest link. But we don't have that in Latin America. We have independent monetary policies for the most part, independent exchange rate policies for the most part, independent fiscal policies for the most part, et cetera, et cetera. So we don't need as much coordination as if we were, say, in a currency union.

And, you know, at the beginning we saw the advantages of a currency union. Now we're seeing some of the disadvantages of a currency union. And I think it's becoming clear that as with exchange regimes, the extreme solutions may be the most enduring, namely if you're going to enter into a monetary union, you better also enter into a fiscal union and everything else because if you just go halfway, you know, you might find yourself at a difficult spot, just like a lot of halfway exchange regimes that were neither flexible enough when they needed to be nor fixed enough when they needed to be worked. I think the same is true with coordination attempts. So that's my take on it.

MR. BONNELL: The question is also if coordination pays off in the short term for politicians, and I think it doesn't. And Europe is an area that has a lot of integration. There are a lot of institutions and coordination is extremely, extremely difficult and doesn't pay off in the short term. So, I mean, politicians don't act. And I think Latin America, it would be good to have a little bit more coordination because I believe that there are some benefits towards more integration. But, again, I mean, without the institutions it's very, very difficult.

MR. MUSALEM: I kind of agree with Arturo, but let me be a bit more kind of philosophical or theoretical. So you can have two types of coordination: the hard-wired coordination that you have or you needed to have in Europe -- this is hard-wired because that's the construct you're in -- or there can be coordination which is kind of endogenous or it happens because you have to integrated to a point where, you know, you're somebody else's neighbor and let's say if you behave badly your neighbor's going to tell you, listen, why don't you -- you're producing some negative externalities for me, why don't you behave a little better? So there's a peer pressure kind of loosely wired and there's the hard-wired.

You know, when you're hard-wired there's no option, you have to coordinate. When you're loosely wired I think some coordination would be good, but I'd rather I focus on the conditions that would lead you to a loosely wired kind of fertile ground for coordination rather than on the coordination itself. So certainly if there were -- and this goes along the lines of the (inaudible) and, you know, the mutual insurance if there were more financial integration within Latin America, so we see Daewoo (phonetic) opening branches and taking substantive positions in the banking systems of the major financial markets in Latin America, we see stock markets merging, we see (inaudible) markets merge, the (inaudible) made by, you know --

SPEAKER: Anything.

MR. MUSALEM: -- made by another -- I'm not even going to speculate, but made by another equity market in the region. So you're seeing the financial flows in addition to the trade flows begin to integrate the region. It's still very early days. It's still, you know, the beginning of a process, but who knows? As we integrate more on the trade side, on the financial side, the South-South trade and financial flow, you know, maybe, in the future, maybe, you know, Colombia can have a bigger say in the affairs of Mexico or Mexico in the affairs of Brazil or whatever, right, in a gentle way, in a kind of soft touch kind of coordination rather than, you know, I am Germany, I'm going to dictate your fiscal policy from now on kind of thing. (Laughter) So I think there's some room for that.

Just one comment on the (inaudible), which is -- you know, Eduardo's done a lot of work on this kind of self-insurance idea. I think that's a fantastic idea. I think we need to have Brazil and Mexico participate in that, too. I don't think they are there. Brazil could play the role of the land of last resort; you know, could. Not the ultimate land of last resort, but I'd say a better -- a buffer in between those two.

You know, we need more tax harmonization. We need more securitization laws being common across countries. You know that would be the coordination. So it's setting the environment for coordination rather than imposing coordination is what I would suggest is the better approach.

MR. LEVY-YEYATI: Yes, just briefly, because I'm the moderator, I shouldn't be talking, but I think there is room for coordination, particularly in trade agreements. And I think that if you really want to get a scale for some, you know, high-quality production structure, you need to have the agreements there. And it showed up at the places where (inaudible) was less liberal and more coordinated, actually they created some value added.

And I think there is a loosely wired coordination in any case. It's an over-the-counter type of coordination. If you do something wrong, somebody will call you from, you know, the foreign office of the other country. Here, I will tell you you're doing this and this is the retaliation that we have for you. And there is some coordination we don't see, but it works, on trade particularly.

So I think coordination may pay off. There's a different issue of whether you want to back to a particular exchange rate bond. This type of coordination, I think, is out of fashion. But this implicit coordination and this idea of trying to sort of have a margin where you can play without having active intervention I think is important, and they should be moving there. I'm not sure they are.

MR. MUSALEM: Can I just say one more thing?

MR. LEVY-YEYATI: Yes, you can.

MR. MUSALEM: I forgot to mention that -- and Arturo's touched on this in his beginning remarks -- there's coordination with each other and then there's coordination outside the region. And Arturo mentioned the IMF example of, you know, trying to coordinate behind what would have been, you know, the first managing director from an emerging market at the IMF. But just two days ago, Brazil initiative, for example, a WTO complaint against China for currency manipulation. This is kind of historic, right? This is the WTO in no part of its agreements considers currency misalignment as an instrument of trade policy. I mean, think what loophole that is.

And Brazil is surprisingly -- not the U.S., Brazil surprisingly -- is the one that is coming to the fore and saying, listen, this seems wrong. This initiative will never go anywhere because the ministers of finance of the world will never let the WTO have any say on currency policy, but nonetheless, just the fact that it's been elevated by Brazil, it would have been very nice if Mexico would have come behind it and Argentina would have come behind it and Colombia would have come behind it, and then maybe the U.S. would looked so silly for not coming along, but it would have come along, too. So that kind of international coordination is something we probably could a little better, right?

MR. LEVY-YEYATI: That's another good example of how China actually is tearing us apart because I think Argentina is so dependent on China it will never actually endorse such as --

MR. MUSALEM: So is Brazil, though.

MR. LEVY-YEYATI: Yeah, but Brazil (inaudible) feel so.

Anyway, as the moderator I have the priority of giving you the final ultimate question. Say if you have a (inaudible) event, a (inaudible) risk event, say, for instance, now you read that Greece leaves the euro, would you sell Latin America? I mean, after all we've talked, would you run and sell everything you have, sell your exposure in that unlikely situation?

MR. BONNELL: In our long-term, certainly we wouldn't. I mean, it may be a good opportunity, I mean, to invest more in Latin America, but this is the long-term view.

MR. LEVY-YEYATI: Arturo?

MR. PORZECANSKI: Well --

MR. LEVY-YEYATI: What would be your first reaction? That's what I'm saying.

MR. PORZECANSKI: Yeah, yeah. I mean, I think there are -- there's divorce and then there's divorce. In other words, it depends, you know, how Greece leaves the union. Is it a nasty divorce?

MR. LEVY-YEYATI: Nasty, nasty. No, no.

MR. PORZECANSKI: Oh, nasty divorce?

MR. LEVY-YEYATI: No, if it's a nice divorce, you know, what's the point of the question?

MR. PORZECANSKI: If it's a nasty divorce and it's going to be followed by other nasty divorces, of course I would sell.

MR. MUSALEM: I can't answer that question.

MR. LEVY-YEYATI: We are not recording this. (Laughter)

MR. MUSALEM: No, seriously, I can't answer that question. I'm not supposed to speak of our investment strategy. But what I will say is it would certainly be a systemic event for the world. In that regard, you know, people would start to mark down growth expectations. They would start to mark down expectations of future commodity price levels. They would start to mark down expectations of capital flows. And, you know, the fundamental outlook for Latin America would, for a time, maybe for a year or two or maybe three, not look as good.

MR. LEVY-YEYATI: Yeah, but this is a relative value analysis, so essentially if you sell it (inaudible) it would mean that you're assuming that (inaudible) would fare worse than the rest. You have to buy something else.

MR. MUSALEM: That's not what I said.

MR. LEVY-YEYATI: Okay. So the circular logic still works.

MR. MUSALEM: No, I'm saying --

MR. LEVY-YEYATI: It's just saying that -- you're saying that the market will price down in Latin America, so you react to that.

MR. MUSALEM: Probably the market will price down a lot of things and, you know, Latin America will not be excluded.

MR. LEVY-YEYATI: Okay, fair enough.

MR. PORZECANSKI: It's the reasonable thing. You know, when a Lehman happens or when a Greece happens, you should react. I mean, I cannot imagine that you would have the same investment position the day after as the day before. You should react. The investors do react. That's what they do, they react to news. And as Eduardo said it would be a systemic news event, so there has to be fallout, whether it's logical from a long-term perspective, it's reasonable, whatever, but people will run.

MR. LEVY-YEYATI: I'm not judging. I mean, I'm just asking you a question.

MR. MUSALEM: I think the more relevant question is -- and I'm sorry to change your question -- is what would you do three to six months after the event, right, when asset prices are completely dislocated? You know, you look at the 10-year horizon, you say, oh, my god, you have a country with, you know, 25 percent debt-to-GDP trading at 800 basis points just because the rest of the world looks awful. What would you do then? That's the more relevant question.

MR. PORZECANSKI: Right.

MR. LEVY-YEYATI: That's an easy one.

MR. MUSALEM: It's more relevant.

MR. LEVY-YEYATI: Okay, fair enough. So, well, thank you all for coming here and bearing with us during the three hours. I hope it was useful. And I would ask a round of applause for our kind friends (inaudible). Thank you, all of you. (Applause)

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