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PARTICIPANTS:

Moderator:

DANIEL KAUFMANN
Senior Fellow
The Brookings Institution

Featured Speaker:

LEONARDO MARTINEZ-DIAZ
Deputy Assistant Secretary for the Western Hemisphere
U.S. Department of the Treasury

Discussant:

MAURICIO MESQUITA MOREIRA
Principal Economist, Integration and Trade Sector
Inter-American Development Bank

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P R O C E E D I N G S

MR. KAUFMANN: Good morning. I guess the mic is on. You're here. And it's very important to specify very clearly that the mic is on since we have a high level representative from the U.S. government.

Welcome to Brookings, what promises to be a very exciting event about the future of the U.S.-Latin American Economic Partnership. This is, as you know, a prelude to the upcoming Sixth Summit of the Americas that will be held in Cartagena, Colombia in about 10 days.

My name is Daniel Kaufmann. I'm a senior fellow here in the Global Economy Group at Brookings. And for this session I've been officially called the moderator, but in reality, because we want to have a very interactive session, I'll be a little bit more of an agitator and also get involved in discussion and in the comments. The objective is, indeed, that we have a very participatory and interactive session with substantive back and forth, not only among ourselves which we'll do at first, but with you all.

So this is how exactly we want to proceed today in the next hour and a half. First we'll have our featured speaker, Leonardo Martinez-Diaz on my left, who will speak for about 20 minutes telling you a very important policy statement representing the U.S. Treasury and the U.S. Government. And after that Mauricio Moreira on my right will provide about 10 minutes of feedback and commentary. And then I will comment briefly and provide a bit of questions and challenge to them both and have a little bit of give and take between the three of us. And after that exchange we'll have the very participatory session with you all where you are going to be crucial participants in this.

Now to quickly get to the core substance of this session. Let me tell you very much in brief some of the great virtues of both the featured speaker and the commentator. I'll be brief. I cannot go through all their accomplishments, writings, and positions because it would take too long and in a concise way it is in the program that you picked up. So sorry if I don't do full justice and totally exhaust the issue. But Leonardo Martinez-Diaz, who is the deputy assistant secretary for the Western Hemisphere at the U.S. Treasury, he served before as director of policy at USAID. Before, he was, in fact, my colleague. That's why we're friends here at Brookings in the Global Economy and Development Group and was also involved in the Partnership for the Americas Commission. So he has had a long involvement with issues he will present today and the policy prospects on that. He has also been involved with high level commissions and reports related to the IMF and the World Bank. He has been a researcher at Oxford focusing on politics and banking reform. And also in the reform and governance at the IMF related to financial crisis management and so on. He's been the author and editor of a number of books, including one very appropriately entitled, even nowadays, Globalizing in Hard Times and also of another edited book on Brazil as an Economic Superpower?, which was, in fact, co-authored with Lael Brainard, who is also a high-level official at the Treasury now and used to be at Brookings. He has a number of degrees, including political economy from Oxford and from Northwestern University.

And briefly about Mauricio Mesquita Moreira on my right, he's now the principal economist in the integration and trade sector in the Inter-American Development Bank (IDB), and before he was in the research department of the Development Bank of Brazil and also taught at the Federal University in Rio de Janeiro. He's the lead author of a number of studies -- I'll mention only a few like, for instance, Shaping the Future of Asia and Latin-American Relations, which is coming up now, and also he contributed to the volume that Leonardo edited on Brazil as an Economic Superpower? He has advanced degrees from the University College in London.

So let's go now to our featured speaker, Leonardo. We look forward. The floor is yours. Actually, the podium is yours.

MR. MARTINEZ-DIAZ: Thanks so much, Danny, for that introduction. It's really good to be back at Brookings and to be surrounded by so many old friends and colleagues. And thank you very much, Mauricio, for agreeing to be part of this dialogue.

You know, first, when I was at Brookings I was paid to be interesting and now I'm paid to be the opposite, so you'll have to bear with me a little bit.

Let me start by, you know, giving you some remarks that are forward-looking and strategic about the relationship between the United States and the countries of the Caribbean and Latin America. And I think this is a good time to have this conversation so close to both the visit of President Rousseff next week to Washington as well as President Obama, and other presidents, of course, assembling in the Sixth Summit of the Americas in a very few days. So I think that the timing is just right.

And let me start by saying that there is no region in the world with which the United States has as many connections as it does with Latin America and the Caribbean. Fifty million people, one in every six Americans, consider ourselves Latino or Hispanic and trace our roots to the region. This is often forgotten, but the United States exports about $370 billion a year to Latin America and the Caribbean. That's three and a half times more than we export to China and about 30 percent more than we export to the European Union. A third of our global crude oil imports come from Latin America and the Caribbean. And nearly a fifth of highly skilled migrants that are admitted to the United States ever year through one of our key visa programs come from Latin America and the Caribbean. So these are some key examples of how those connections that tie us together are very strong.

Now, because the region has become so familiar to us over time, I think it's easy to forget how much the region has changed. And if you consider the region in the last two decades you'll see, I think, some very impressive change. At the beginning of the 1990s, Latin America was coming out of a lost decade of zero net growth, and yet at the beginning of the time, you know, you had poverty and equality that were stubbornly high, high inflation and hyperinflation were common, fiscal imbalances were dangerously unsustainable, and banking and currency crises were common. But since 1990, the region's economy has more than doubled in real terms. Poverty and equality have fallen significantly. Inflation is now mostly in the single digits across the region. Financial systems are generally stable. And macroeconomic frameworks in most countries are sound. In other words, Latin American today -- many of those economies in Latin America today are engines of balanced, sustainable, and inclusive growth in a world that badly needs it.

So my goal today is to identify some of the implications of these changes for the relationship between the U.S. and the countries of the region. And I want to leave you with two key thoughts. The first is that closer economic links between the United States and Latin America will be extremely important, in fact critical, if we are to accelerate and sustain U.S. growth and job creation. And the reason for that is that changes in the hemisphere over the last few years have ensured that those countries are today credible, responsible, and reliable economic partners, and that's a significant qualitative difference.

The second point I want to leave you with is that the U.S. economy in turn will be indispensable for the countries of Latin America and the Caribbean as they seek to achieve their full economic potential and aspire to join the *ranks* of the world's most prosperous societies. And the reason for that is that the U.S. will continue to offer the biggest and most open markets for goods and services, the deepest and most liquid capital markets and a unique capacity for innovation and entrepreneurship.

In the last part of my remarks I will briefly put in a plug for what Treasury and the U.S. government have been doing without, you know, giving away too much about the Summit of the Americas, but I do want to highlight some of the key initiatives that we are pursuing. So let me start with the first point, that Latin America and the Caribbean will be critical for accelerating and sustaining U.S. growth. And there are several reasons for this. The first is that Latin America is expected to continue growing. Growth for 2012 is projected to be 3.6 percent, and then growth for the region in the next, you know, from 2013 to 2016 is expected to be on the order of 3.9-4.0 percent. Now, for sure this growth is less than the extremely fast growth you saw before the '08 crisis, but nonetheless it is still going to be considerably faster than the growth for the mature economies of Europe, Japan, and the U.S. itself.

Another reason why the region is going to be critical for the U.S. is that Latin America has a large and growing middle class, and that middle class is expected to keep expanding. Just consider this, if you take some of the numbers from the U.N. Commission for Latin America and the Caribbean, we'll see that the number of middle class households in Latin America has grown by 56 million since 1990. In other words, the region's middle class population has expanded by 150 million people in the last 20 years. That's about half the population of the United States. And as you can imagine, this is a really important source of demand, both for products from those countries themselves and from the United States.

And in addition, and this is, again, another really important part of the new story. We see an unprecedented level of resilience that is evident in many of the countries of the region. Back in the 1980s and '90s, there were weak financial systems and unsustainable debt levels in countries so that when there was an external shock those elements would magnify the shock and make countries suffer considerably. In other words, when the U.S. caught a cold, Latin America and the Caribbean would catch pneumonia. But the region's experience since 2008 suggests that there is a historic shift going on. Colombia and Peru, for example, maintain positive growth throughout the crisis and countries that were affected experienced a very significant and very quick recovery. Many economies in the region today are better equipped to sustain external shocks and to capitalize on positive global conditions than ever before. And that means that during downturns, Latin American can now be a source of stability and support to a global economy that badly needs it.

And of course, there's always a risk of reversals, but overall I am confident that these changes will continue in the medium to long term. And there are four reasons for that. Four powerful drivers are behind these trends. And those are demographics, competitiveness, capital, and policy. Let me briefly go through those because I think they're really important.

Let me start with demographics. If you look at Latin American today and much of the Caribbean, I think you'll see that the region enjoys a demographic advantage relative to the rest of the world. If you look at the -- this becomes clear if you look at dependency ratios which tell us -- which measure the number of working age persons in an economy relative to those that are not in the labor force, you know, children and the elderly. And if you look at projections for Latin America from the U.N., you see that the region still has another 20 years before dependency ratios bottom out at around 50 dependents for every 100 persons of working age. And then the ratios begin to rise but only gradually. And by 2040, they begin to get -- the curve begins to get steep. By comparison, around 2035, China catches up to Latin America and then shoots up. This means that Latin America and the Caribbean will enjoy a significant demographic window of opportunity. There will be at least two decades when conditions will be very favorable for saving and investing and really getting ready for a new spurt of growth.

Now, the second driver has to do with competitiveness. And here I'm primarily referring to Mexico. I think recent statistics suggest that wages, real wages in China in dollar terms have increased considerably. They've grown by about 19 percent in dollar terms from 2005 to 2010, and anecdotal evidence suggests that they continue to rise given a very tight labor market in China. In contrast, Mexican manufacturing measured in dollar terms remains extremely competitive. And though China to be sure has seen stronger productivity gains which have offset some of the wage increases, nonetheless there's a story here about an overall closing wage gap that will make some Latin American countries increasingly attractive as basis for manufacturing, especially for the U.S. market. Now, this is critical. This will not be a guarantee of increased competitiveness. Also important, investments had to be made in order to capitalize on this opportunity.

Now, the third key element here is global capital. In the coming years I think the global capital flows into Latin America will continue and may, in fact, accelerate. Expectations about relatively high future growth rates for Latin America, especially when compared to the rest of the world, will push capital in search of higher returns to the region. And this capital will be really helpful as the region tries to capitalize on its demographic dividend.

And last and arguably most important, there are, I think, very bright prospects because of policy choices that the countries of the region are themselves undertaking. What we're seeing is that around the region a very similar economic policy framework is taking route in many countries, very different countries, from Mexico to El Salvador, from Uruguay to Peru and Brazil. And this framework that I will refer to is above all pragmatic, it is homegrown, and it is being embraced by governments of all political stripes, both on the left and on the right. And there are also very clear advantages that are becoming evident over time about why this framework seems to work better than the alternatives.

So what is this framework? And let me sort of flush it out a little bit. I think it's got sort of two components. One is about stability. The stability component of the framework has, you know, involves things like fiscal discipline and transparency, which are helping countries avoid unsustainable debt burdens and secure reliable access to international capital. It's about credible monetary anchors. Seven countries in the region have already, you know, adopted formal inflation targeting regimes which have helped keep inflation under control and have also allowed these countries to adopt more exchange rate flexibility. It's about greater exchange rate flexibility, which is allowing countries to adapt to external shocks at lower costs in terms of employment and it's also discouraging dangerous buildups of mismatches in the private sector, which as you recall in many previous crises have been really destructive. And it's also helping countries avoid speculative attacks.

A very important element here also is well regulated and capitalized financial institutions which have been critical in helping the region weather the 2008 crisis. Now, the second component of the framework is about growth. It's basically the recipe to try to generate inclusive and sustained economic growth in the region. Stability is important, but stability without growth is not going to be very fulfilling for anyone. And the elements of this part of the framework are also worth highlighting. The first is large and well-focused investments on infrastructure, education, and research and development. I think most countries in the region recognize that without these three critical elements it is very difficult to compete in an open global economy.

The second is regulatory frameworks that encourage private entrepreneurship. I think most countries in the region now recognize that private enterprise is the most powerful engine for growth and innovation, even in countries where there's still a significant role for the state. Embracing a rules-based open-trading regime has been critical in helping many of the countries of the region tap large markets. Countries as diverse as Jamaica, Honduras, and Columbia have been able to do this, thanks to an open trading regime.

Openness in capital flows has been also extremely important. This year Latin America will experience or will have experienced $113 billion of FDI from outside. And the reason they've been able to do this is partly because of an openness to capital flows. Measures to mitigate inequality of opportunity and to protect the most vulnerable have been also extremely important in order to show that the framework doesn't just work for the one percent as it were but also for the broad of the population. And here Latin America has made a very important contribution. Mexico and Brazil for their own conditional cash transfers have really made -- have pioneered some of these efforts which have been replicated in many parts of the world. And efficient and increasingly progressive tax systems are also being embraced both for equity considerations and in order to ensure that the state can provide public goods. And finally, I'd say that another element of this framework that is emerging is an increased interest in stabilization funds to help protect economies from declines in commodity prices and to protect themselves from these kinds of shocks.

Now, this framework that I've just described is a work in progress. But its basic tenets are being endorsed across the hemisphere. And so the central challenge now is how do we institutionalize this framework in institutions and regional and local institutions that are effective and legitimate? Now, although a lot has been achieved in recent years in Latin America, I don't want to obscure the fact that Latin America and Caribbean countries still face some very significant development and economic challenges. In many places poverty remains endemic. Income and wealth inequality remain dangerously high. Social exclusion continues and vulnerability to natural disasters remains a serious preoccupation.

In the Caribbean, there's concern about a self-reinforcing negative triangle of low growth deteriorating financial positions and financial sector stress. In Mexico and Central America there's obviously a concern about crime and insecurity, which risks undermining institutions and which is very costly, not just in human terms but also for businesses there. And while we hear stories about Latin America's new dynamism, let's still remember that GDP per capital, real GDP per capital, has still grown at much too slow a rate, especially if we compare them to some East Asian economies.

So, effectively addressing these challenges as we look forward is going to require strong sustained and effective growth. And this is where the U.S. plays an important role. In the coming years the U.S. is going to provide Latin America and the Caribbean with some extremely important opportunities to capitalize on the current window of opportunity. And let me tell you why. Let me start with trade. The U.S. remains the world's largest market and geographically close to the region, of course. And our markets remain among the most open in the world, even at a time when protectionist measures appear to be proliferating in other parts of the world. Now, the U.S. is also important just in terms of trade or the amount of trade, but also in terms of the composition of the trade. The U.S. will provide some important opportunities for countries that seek to keep their exports diversified.

Let me give you an example. Brazil is a case in point. Brazil's trade with China has grown substantially in the last decade, but the composition of that trade today looks more like Brazil-U.S. trade in 1950. In other words, over 85 percent of Brazil's exports to China are basic goods and raw materials, while more than 90 percent of Brazil's imports from China are manufactured goods. In 2011, Brazil ran a deficit in manufactures with China of about $25 billion. But Brazilian and U.S. trade by comparison is complimentary in a different way. About half of Brazilian exports to this country are manufactured goods -- regional aircraft, auto engines, cell phones, machinery. In turn, Brazil imports from the United States, you know, large commercial aircraft, semiconductors, computer equipment. There's a different kind of complementarity that arguably can help Brazilian industry remain competitive. Now, if the European economy grows more slowly in the years to come, the U.S. market will become even more important as a source of opportunities for Brazilian industry and for Latin America seeking to continue to be diversified.

Now, Brazil is not a unique case. I can tell you a similar story about Peru, which exports -- 80 percent of its exports to China are metals and minerals, but 40 percent of Peruvian exports to this country are nontraditional, higher value goods which can help produce good jobs in that country.

Now, the U.S. will continue to be an indispensable source of capital for the region. Today, U.S. companies have over 200 billion invested in Latin America, and our capital markets remain the deepest and most liquid. Every day Latin American companies and governments tap our markets to get the capital they need to operate and grow. And by the same token, and this is kind of a new story, an emerging story, the U.S. will provide important opportunities for Latin American investors as they seek to find a place to invest their capital. And this is already happening in a small way but you can already see in the statistics. In 2010, outward foreign direct investment from Latin America and the Caribbean reached an all-time high of $43 billion. Most of these investments are multinational companies in Colombia and Mexico and Brazil and Chile looking for new pastures, new horizons. Some of that money stayed in Latin America in some of the neighboring companies, but a lot of that came to the United States as well. For example, today Mexico-based group, Grupo Bimbo is one of the largest baking companies in the United States with bakeries in 13 states and employing 15,000 American workers. Another example, of course, is the Brazilian steelmaker, Gerdao, which produces steel in 19 states and employees 10,000 American workers. And I think we'll see more of these stories. We'll see these stories become more common in the years to come.

And finally, the United States remains home to over 50 million people who trace their roots to Latin America as I mentioned at the beginning. And of course, they're very important because these Diaspora communities connect the U.S. to countries everywhere, from Mexico to Colombia, El Salvador to Haiti. And, of course, they're best known for providing very large amounts of remittances, about $40 billion worth of remittances.

But I think there is something even more important, that these Diaspora communities can become agents of change in private enterprise, combining American know-how, business know-how and knowledge of local opportunities in Latin America to create successful businesses that cross borders and tie our hemisphere together. This is again an emerging story. I can't show it to you in the numbers yet but anecdotally I think we see quite a lot of it materializing.

Now, in view of all this let me turn to my final section here, which is how do we seize these opportunities? And what is the U.S. Government and U.S. Treasury doing to stabilize these -- doing to capitalize on these? First, we will support countries implementing the stability and growth framework that I mentioned. We will do this through our bilateral and multilateral policy dialogues, through our policy actions and the executive boards of the IMF, the World Bank, and the Inter-American Development Bank. And for technical assistance program. The Treasury has a relatively small but very effective technical assistance program. It is currently providing institutional capacity to 10 Latin American and Caribbean countries through dozens of programs.

Second, we will work with the region's largest economies to strengthen our economic and financial partnerships. And here, with Brazil, for example, we will use the presidential economic and financial dialogue which, of course, will be part of the conversations between our presidents and our ministers next week, to seek stronger collaboration on issues like infrastructure, finance, and addressing the problem of global imbalances.

With Mexico, we'll continue our very intense dialogue. Mexico, of course, remains one of our closest partners on a range of important issues. And as well as a key partner in interdicting and stopping financial flows from organized crime. Mexico, I should add, as current chair of the G-20, has played an important leadership role and, in particular, has become a global leader in financial inclusion, which is an issue that Treasury and other parts of these government care about.

We're also committed to strengthening and deepening our relationship with G-20 member Argentina. After it addresses some concerns and a variety of issues, including engagement with international institutions and payment of final exit awards and Paris club debt, we think the potential for partnership here is large and we would really encourage Argentina to address these issues as soon as possible so that it can be fully a member of the G-20. And in the G-20 we will work with our regional partners to advance common interests, including restricting protectionism and trade and addressing global imbalances as I mentioned.

Third, we will support and collaborate with Latin American and Caribbean-owned regional institutions. We think this is very important because regional institutions are closer to the people they serve. They're closer to the problems they're trying to tackle.

Let me start with the Inter-American Development Bank. This is one of the -- this is still the largest provider of multilateral investment in Latin America. And as you know, the U.S. government has recently committed to a replenishment of the fund for special operations and to a significant increase in the capital of the institution of the Inter-American Development Bank. It has basically doubled the IDB's disbursement capacity from about 6 billion to 12 billion, and we will continue to encourage the IDB to sharpen its focus, tackling poverty, building public-private partnerships, and advancing regional integration which is so important for many countries, especially the Caribbean and Central America.

We welcome the growth of innovative and effective regional institutions, such as the CAF, the Indian Development Corporation now renamed the Development Bank for Latin America, and we're also encouraged by innovative efforts to pool stock markets. For example, MILA, the integrated Latin American market which is an ongoing effort to pool together the stock markets of Chile, Colombia, Peru, and eventually Mexico. And we will also engage more closely with regional institutions in the Caribbean, especially the organization or Eastern Caribbean states and the Eastern Caribbean Central Bank.

Fourth, we will continue to promote development and resilience in Latin America through a variety of innovative, small-scale but hopefully very effective initiatives. And you'll hear I think President Obama announce several of these in the next Summit of the Americas. Let me give you a couple of examples of the ones we have already put in place.

The first is the Negro Fund, which is an innovative, public-private partnership to ensure access to capital for micro-finance funds. Through the G-20 we have put in place the Small and Medium Size Enterprise Finance Challenge of 2010, which has allowed many small and medium size entrepreneurs to access capital. And together with our partners -- Canada, Span, Mexico, and Colombia -- we have launched what we call the Crossroads Fund which is meant to support high-impact regional infrastructure. And through the president's Partnership for Growth in El Salvador, we are tackling some of the key constraints to growth in that important country.

Now, the last thing I'll say is that as we travel through Latin America, one of the things we hear about is that the American private sector is not as engaged as it once used to be in Latin America. And because of that we as the U.S. Treasury and the U.S. government, we want to work very closely with the U.S. private sector to make sure that American business is able to compete on a level playing field in Latin America and that the U.S. private sector also understands and is fully informed of the opportunities that exist in Latin America and will continue to work with the financial community and with our companies here to do that. And of course, in collaboration with the Department of Commerce, USTR, and so on.

So in conclusion, this is a special moment of opportunity that must be seized both for us in the U.S. and across the hemisphere. A deeper, more mature economic relationship between our countries is rising, is developing, and will be increasingly important for growth in the United States. At the same time access to the opportunities the U.S. economy provides will be essential for Latin America and the Caribbean as it looks to reach a new level in its development. And together I think we'll be able to capitalize on the auspicious period of stability and growth that we have now entered.

Thank you very much, and I look forward to having a conversation both with our panelists here and with the rest of you. Thanks.

(Applause)

MR. KAUFMANN: Thank you very much, Leonardo. That was excellent and crispy delivered already with a lot of food for thought. Without further adieu we go to Mauricio.

MR. MOREIRA: Thank you very much. Good morning. Many thanks for the invitation and for this opportunity to be here. It's not every day we have the chance of discussing the U.S. Treasury, the future of the U.S. and LAC relationship. And let me start by congratulating Leonardo for the very well thought speech. I know that's not very good for the debate but I just happen to, you know, agree with most of the things he said. I think he got most of the diagnostic right and, you know, and as a consequence he also picked the right priorities not just for the relationship but in terms of the challenges of development for the region. I'm not saying that because, you know, the U.S. is the main shareholder of the IDB but I just happen to think that any objective analysis of things that are going on in the region in the relationship would come to the same set of conclusions.

So rather than disagree with the things he said, what I'm trying to do in my short 10 minutes is try to pick one of the issues he raised and try to elaborate a little bit more and perhaps one disagreement I might have is in terms of the emphasis of the issues he raised. So my point -- my main point here is that I believe the landscape on the relationship has been operating in the U.S. and LAC relationship has been operating in the last 10, 15 years has changed dramatically. I mean, when we think about the discussions we had during the FDA period, I think it's sort of black and white, and I believe the main single factor responsible for this shift, I would say, this tectonic shift is the emergence of China, you know, and Asia as a whole. I think it clearly changed the equation on both sides and I know there's a lot of people that believe, and I agree that the appearances might suggest that because of this emergence, you know, the case for stronger integration between the U.S. and LAC is not as valid as it was before, you know, that both economies will drift apart because you now have other options.

But I just happen to disagree and I believe that it's quite the contrary. Unless one believes the final crisis of the capitalism, you know, the sort of nonsense, I believe that China's emergence and all the Asian countries are coming behind only makes, you know, the case for stronger integration between LAC and the U.S. only makes this case stronger. And I'm trying to explain why. You know, as you know, China has been a very welcome new source of demand for the regional exports and also increasingly a new source of capital. And it's particularly convenient in times of crisis like that so there's no doubt there's been a huge benefit for the region because of China and because of Asia as a whole.

But at the same time it has raised the specter that the region is going to specialize again in a small number of commodities, which is sort of a colonial trauma. People really get worried about that in the region. So, and at the same time it questions the ability of countries like Mexico and Central America to use manufacturing exports as a source of growth. So I think it's a key issue. And whatever you think in terms of an agenda to meet those challenges, I think the greater integration with the U.S. either by reducing trade costs, you know, traditional trade costs or by increasing FDI should be part of the solution and not the contrary. You know, Leonardo has already mentioned, and one just has to look at the composition of trade, bilateral trade between the two economies, you know, exports -- LAC exports to the U.S. are much more diversified than it is to China and for Asia as a whole.

So if the region is really worried about diversifying its exports, it's clearly a no-brainer. It has to deepen its relationship, it has to -- increases its integration with the U.S. economy and not the way around. And it's not surprising that it's like that. I mean, the competitive advantages in manufacturing between the U.S. and LAC are much more complimentary than it is with China and Asia, and it's going to remain like that for quite a long time. I mean, it's true that, you know, you can make an effort to diversify exports to Asia but, you know, the natural resource pool is so strong that you know, I think it's totally unrealistic to think that in 10, 15 years LAC is going to be exporting a lot of manufacturing goods to Asia. So I do think that in a context like that the U.S. market and the regional market assumes where, you know, the interregional trade is also much more diversified than trade with Asia as a whole.

But I don't think that the region can take these opportunities for granted, you know, this fact that there's more diversified trade with the U.S., that these things are going to continue forever because, you know, the competition is there and the Asian competition is there and it's putting a lot of pressure on the regional manufacturers and exporters. And LAC, Leonardo, and perhaps here is my main disagreement, I'm very skeptical that Latin-America as a whole can count on labor costs to compete. Yes, I know that wages in China have been rising fast, but the fact is, and you look at Latin America, you know, in many of those countries wages are rising even faster helped by, you know, exchange rate appreciation. And even so, when you think in the medium and long-term, I mean, China still has roughly 40 percent of its population in agriculture. Those people are going to move into manufacturing eventually, which is going to keep putting down pressure on wages and even if you think that China, okay, it's going to graduate vastly, India is coming along with an equally huge population which is going to make competition in labor-intensive goods even harder.

So, you know, when I think of the future in terms of making sure that the region can diversity its exports, I think that the key main advantages are in natural resource intensive goods, adding value to the natural resources that the region has, and the fact that the region is closed to the biggest market in the world and also has a big domestic market to take advantage of. In other words, the advantages of proximity.

So either natural resources or proximity, those two factors give things like transport costs and logistics a strategic importance that it didn't have before. And so when we think in terms of bilateral trade agenda, I would, you know, put a lot of emphasis on those issues. It's not just, you know, trade barriers and trade agreements anymore but making sure that, you know, the region, by investing in infrastructure, by improving trade facilitation, by improving business at the border, it can take advantage of those type of advantages in natural resource goods and time sensitive goods. You know, things where it can really compete with the U.S.

If we look at, for instance, the manufacturing exports, that's doing well in the U.S. It has been withstanding well the pressure from Asia. It is exactly those types of goods that are very transport intensive or time sensitive. So it clearly shows that, you know, where advantages are and in this sense I very much welcome the emphasis that the Treasury has put on this type of agenda, you know -- the transport costs and logistics agenda -- the support that the Treasury has given to initiatives like the Crossroad Fund. I think the IDB, it's very much in this direction and again, it's not that I'm saying that the old trade agenda is over, you know, we just have to look at South America. You know, there's a big agenda in terms of bringing tariffs down but clearly I think there is a bigger return in this other agenda which has the additional advantage. It doesn't require the type of broad political consensus that you need for pushing trade agreements forward.

And then I will come to my last point hoping to have some time to go on.

And my last point, I think there's another important area of cooperation between the two economies which are directly related to the needs to diversify exports in the region and it has to do with the enforcement of the international trade rules. I don't think, you know that it is in the interest of any Latin American country, even the large ones that heavy government intervention, aggressive trade policy becomes the norm in international trade. I don't think LAC has the political institutions and in this case I'm glad for that. Nor the resources to face this kind of strategic policy world where states have, you know a big influence on who wants the competition.

And it just happens to be, you know, that the U.S. government has been giving a lot of signs. It also doesn't see those type of practices as something that should be part of the international trade, so why not cooperate more on these areas? Why not you know pushing for an international trade where the states have a smaller role that things like exchange rate manipulation, subsidies, you know ,has a much more role to play than it has been having so far. I really don't think that, you know, those kinds of tit-for-tat strategies that you see some countries in the region doing, you know, trying to boost their state, increase their state companies, you know, sort of mimicking some kind of strategies you see. It's not going to solve the problem for the reasons I explained before and it has this huge risk of taking us back, you know, to the problems that we had in the '70s, of '80s, of fiscal problems and the high inflation that comes with it.

I will leave it at that. Thank you very much.

MR. KAUFMANN: Thank you.

(Applause)

MR. KAUFMANN: Thanks, Mauricio. Excellent speech, excellent comments.

So I will complement by making a few brief comments which are going to be also leading to questions. On three areas I would like to comment. And I take the prerogative of being the moderator and the challenger, but also being the only one in the podium who does not represent an official institution. So here at Brookings it's all our views so I can speak more freely and try to push you both a little bit even though you provided already a lot of substance.

The first question is about the whole approach of the U.S. to Latin America. There has been a lot of noise for years now about the neglect. Increasing neglect, benign neglect or so on for many geopolitical reasons and how the axis has changed. I think your speech and also the facts that you mention suggest that that's certainly not the case. And I'd like to ask not so much the question has there been so much neglect which you're for sure going to refute, but the more subtle question that perhaps, and there I speak as a Latin American also, not only being Brookings and knowing the U.S., but I'm from Chile. Has the U.S. gotten increasingly behind the curve in that relationship? And to what extent would you telling us today in terms of where moving forward is an attempt to catch up in being behind the curve? In what sense?

In the following sense. I don't think, and you showed it to an extent, that the relationship between the U.S. and Latin America over the past 10-20 years has changed much. So that means -- the good news is that there hasn't been really an increasing trend towards neglect, but that's part of the problem, that it hasn't changed that much when you even mention it and you mention it again. Latin America has changed dramatically and the question is whether the U.S. in its relation to Latin America has adapted to that change. In fact, if I look at the numbers -- FDI numbers, trade numbers, aid -- they look -- the annual averages are eerily similar the second term of the Bush administration or the first years of the Obama administration where we have the data. It's like having an incredibly stable line. But also in terms of policies and so on, there may be a sense of continuity which in general is good.

But here is the question -- given the seismic shift in the region in Latin America, we have not weighed any noneconomic issues but since they do matter for economics I'll mention them quickly. It's no longer the era is full of dictators. It's an exception, not the rule. Civil wars. Remember those days in the old days? Instead, they're about growth. The macroeconomic discipline. We have become grown up to a large extent.

Just to illustrate that you mentioned very high figures for the U.S. in terms of trade. They are true. In 1991, Latin America trade with China -- exports plus imports -- totaled $1.2 billion. Nowadays, it's $200 billion. Okay? During that period the U.S. in '91 had $263 billion. So it's about 250 times China and now it has 600 billion, which is enormous but it's only three times more than China. And for some countries in Latin America, including my own, China has become an even more important partner than the U.S. So this but the shift is absolutley sismic.

Okay. So that's question number one. To what extent the U.S. has adopted which leads to the question number two. You mentioned a number of very valuable and interesting initiatives. You praised them -- and this question I always ask so I'm not discriminating because I come from a more macro tradition in many sense -- do the specific regional initiatives really make a difference as opposed to the much larger policy initiatives and macroeconomic background what just to be politically correct. Chicken feed programs on the one hand. I used to be in the World Bank for a long time so we had to always for the president's speeches a long list of initiatives, 80-90 percent didn't count by much. Those are million dollar initiatives versus a billion -- multi-billion dollar questions which I would call the elephants in the room, some of which may be politically difficult for you to mention in the speech but I'd like you to address.

So let me mention. Number one, if I was so interested, and you mentioned the $600 billion in total trade between the U.S. and Latin America and proper that forward, obviously first and foremost question I would have, the U.S. macroeconomic management and macroeconomic expense. How the U.S. is doing and to what extent it's going to be more responsible than the past eight years or so, even over the past year there has been an improvement, granted. That matters probably more than most other things. You mentioned in passing, and I'd like to backstop that because it's important, trade barriers, the ethanol tax. The U.S. imposes trade barriers on Latin America in particular. To what extent that may be part of the agenda or being an address or not.

And then in even more sensitive areas, which I work on so I'm biased but they matter so much for the economy so it's not just for mentioning it, and that's issues of related to governance. The drug wars, the drug problem obviously has enormous economic implications so to what extent that features also in the economic calculations to have a particular effort with that change because it has been relatively successful in the past in Colombia but in Mexico we have a very mixed record of what's going on. Corruption is a big concern. Interestingly enough, it's not in this speech, even though you used to talk a lot about it when at Brookings but maybe that's not part of the Treasury mandate. And another elephant in the room is the issue in terms of drugs and legalization. The issue or a different approach than the current approaches that are not working particularly well.

Which leads to the third and last comment/question, which is one area where the challenge between the U.S. -- this is totally just my view with all the disclaimers, no official affiliation to those views. A common challenge in terms of the U.S. and Latin America is, in fact, this challenge of less than optimal, to put it mildly, national level governments. In the case of Latin America, I totally agree and I mentioned that, there's been a major improvement on economic policy areas and many other achievements, and particularly the macroeconomic stance. I think there are many lessons that many Latin American governments can pass on to the U.S. in that context. But one area where we have stayed stuck on average is institutions, quality of governments, issues of corruption, rule of law. I would expect that because other issues and other constraints are being relieved, that's going to be the binding constraint to continue that robust growth and performance. And if those issues are not seriously addressed, we are going to see some disappointment and we're doing some work in that area.

So of course there are exceptions, and one cannot just talk about the region on average and the countries like Costa Rica, Chile, Uruguay, Colombia have made serious inroads and they're good examples of what's possible, but then there are countries on the exact other extreme and there are many countries modeling in the middle. Brazil has made inroads, too, but it's not the norm. Across the region in terms of institutions, in terms of governments, in terms of rule of law, on average, we have stayed stagnant. That's better -- and let's be very frank -- than what has happened over the past 10 years in the U.S. If we look carefully at the data -- now, there is evidence there has been a deterioration in many of these governments they mentioned and we know very well what has happened even until now on Capitol Hill related to very important macroeconomic decisions that do matter and there are many other examples in terms of rule of law, the issues of increasing distortive importance of campaign finance and how that also distorts policy making and creates even more inequality in the polity and in the economy.

Many of those issues we've been grappling for Latin America for decades. So I think it's an opportunity. Now, since on the one hand Latin America has shifted. We have grown up. The U.S. has run into issues. To use this type of summits and other events to say, look, we're both now talking as equals, as grownups, why don't we also discuss very sensitive issues, not like the old days of the U.S. lecturing us in Latin America. And President Obama is incredibly adept at that saying, look, we have these huge challenges and he recognizes them in terms of governance and so on. Why aren't those issues any more on the agenda since they matter so much for the economy? First for the U.S., which in turn matters for Latin America, but also in the Latin American region itself we have not addressed those issues as well as we have done in other sectors.

So those are my three comments. So if that's okay, maybe first you may want to comment on both of us and then to you and then we'll start opening it up.

MR. MARTINEZ-DIAZ: Well, let me start just with pulling together some of the really provocative and interesting themes that you have pulled out. The first is adaptation behind the curve. Right? Look, there's no doubt that the world is more complicated now. Now we have -- for the Americas you have now a variety of new opportunities, new markets, new sources of capital. The increased assertiveness and confidence of many of the countries in the region means that when we talk to them now in bilateral and multilateral settings, we don't just talk about U.S.-Brazil, or U.S.-Mexico, or U.S.-Chile; we talk about the world. We talk about those bilateral issues, but on top of that we talk about regional issues and we talk about global imbalances. We talk about the IMF and the European crisis and so on. That is a significant change in the tone and the quality of our relationship.

Now, the U.S., of course, is a large pluralistic and complex society. And to say that I think we're in the middle of a process of trying to understand how we are changing as a country and how the region has changed in the last few years. And because of that I think it's going to take a big more time before a clear picture emerges. But you'll already see some key themes that are really exciting and really important. Before it was all about sort of donor-recipient types of relationships, for example, right, on the aid flows. Today you see that the amount of aid that we're providing -- Latin America is a lot, you know, is a lot less prominent. A lot of the aid now is going to other parts of the world but the kind of aid we're providing to Latin America is changing. We're putting a lot more now into institution building, into capacity building, into assistance to help now pretty sophisticated institutions -- Central Banks, finance ministries, and so on. Before, you know, there was a real scarcity of economists in many countries so we had to, you know, the U.S. provided some of that expertise and Central Banks and Finance Ministries these days, you know, they have entire rooms full of PHD economist, to have very sophisticated skills. What we talk about now is how do we -- what have we learned from different types of financial products? What is the, you know, what kinds of, what experiences are we sharing?

And it's that fundamental shift between, you know, donor-recipient, between, you know, mentor and mentee if you like to a relationship of equals where you have really an exchange of experience and exchange of ideas. And I think that is really important to underline.

Now, the issues that you raised, which you have devoted so much of your career to institution-building is one that we think is extremely important. Now, Treasury, as I mentioned has a technical assistance program. And we're really proud of it because even though it's quite small, it puts, you know, U.S. you know, advisors in finance ministries, in central banks, working side-by-side with some of the people who work there. And work with them for years. It's really a long-term process trying to, you know, help develop a new cadre of locals in issues like debt management, revenue, policy, budgeting, financial crimes, banking regulation. You know, institution building is not a flashy, glamorous activity. It happens over long periods of time. It's not very photo-up friendly. And you know, it depends a lot on just the resources and technical issues. It also depends on political will.

And, you know, you can put a lot of, you know, effort into helping a tax agency in a country develop and professionalize and become clean and competent. But if, you know, the leadership changes and they have people, who, you know, somebody who is willing to put all his friends in charge of the tax agency and you fire all the professionals and so on, you can go back years. So we always look for opportunities where there is both a political will to invest in institutions and then the patience and the dedication that's needed to really make it work.

In terms of kind of chicken feed versus the big stuff, right? Chicken feed versus the macro. I mean, I agree completely. If you don't get some of the big things right, it doesn't matter what else you do because it won't work. One of the things that we're trying to do here in the U.S., of course, is to try to get our own house in order, both in terms of,you know, medium-term fiscal sustainable path and also to get back into sustainable growth. You know, I think so far the signs are positive. This year the projections are about 2.2 percent growth for the U.S. We see, you know, employment generation. It's not where it should be yet but there's been 3.3 million jobs generated in the last two years. That's about half of what it was loss during the crisis itself. In certain industries we see some positive signs, I think. Automakers are really making a significant comeback, and I raise auto making in particular because it has such an important role in parts of Latin America, Mexico, Brazil, in particular. And so I think over time we are getting to a point here in Washington and in the U.S. where the U.S. can continue to be an important source of the opportunities that I mentioned in the speech.

And lastly, how do we make -- if we do have sort of small initiatives, you know, a couple million dollars here and there, what have we learned? Right? How are these going to be of any consequence? Are they just deliverables or announceables, right, for principals and presidents? Or are they actually going to be meaningful? And what I'd say here is that we have learned something about how to make small programs have a multiplier effect. So, for example, the crossroads that was mentioned. The crossroads element is meant to leverage private capital. It puts in a little bit of public money to have this sort of multiplier effect. With the investments in institutions, you know, we have relatively modest investments in people and advisors but hopefully you are able to leverage a whole institution over time. And so this idea of multiplying forces is, I think, behind a lot of the cutting edge of these kinds of programs, and we're doing our best to make sure that all of our programs have at least some of that.

MR. KAUFMANN: Great. Leverage and multiplier effect are crucial, but as you said, it has to be complemented by the house being in order first and foremost. So that's crucial.

I did not mention explicitly, and in your response I will be very interested, Mauricio, that you cover from your perspective how crucial not only free trade is or less barriers to trade but freedom of movement in terms of labor because I did not put you on the spot but maybe later you can come back. The whole issue of migration and immigration to the U.S. is absolutely crucial the numbers in terms of remittances and how crucial that is for Latin America and the tens of billions of dollars a year. And for some countries a huge part of the GDP is absolutely crucial. So the policies -- that's another example of just one policy of the U.S. One way or the other in terms of immigration that can basically make or break the deal. That's another elephant in the kitchen, like the drug issue like the macro and so on I suppose to a small program that may have a lot of multiplier effects. As an economy, in terms of the integration issues, the issue of freedom of movement of labor is pretty crucial and the U.S. issues are crucial in terms of relations.

MR. MOREIRA: Let me just make two comments. First, on the aid issue that you mentioned, I think frequently people talk about this thing and raise the fact that China is giving a lot of money to the region. There's a recent paper also that tried to measure the amount of loans that China has given. So there's this sort of race who gives more to the region, especially in terms of aid, and I really don't think that this should be the metric by which one measures how important a relationship should be. I think the emphasis should be what is the relationship that opens more the markets to our products and to give us more business opportunities and so on and so forth. And not who gives us more aid or stuff like that. I think the region has already developed enough to, you know, to use this factor as one measure metric to judge any relationship.

On the issue of migration, I agree with you. I think there's clearly benefits on having more free labor movement. I think Leonardo has mentioned in his speech the fact there's a huge Diaspora, Latin American Diaspora in the U.S. I think this could be, as the Indians have shown us, could be a major thing to help develop business in the U.S. and help bringing technology, opportunists to the region. I don't think that Latin Americans have used this possibility, this potential well enough. And yes, I think it should be part of the, you know, the discussion and the bilateral relationship. But obviously one has to think of the political constraints that, you know, exist on this type of agenda. I think even Latin America now recognizes, you know, that this is not an easy issue and the migration that has been occurring of Bolivians and Paraguayans to Brazil and to Argentina. So I think it should be part of the agenda but there is clearly other, you know, lower hanging fruits that we could you know, reach for.

MR. KAUFMANN: What would be the two most important ones?

MR. MOREIRA: As I mentioned before in my comments, there's trade which, you know, it doesn't have to be -- I mean, trade barriers. It doesn't have to be huge trade agreements, particularly if we're talking about, you know, Brazil.

MR. KAUFMANN: So on the ethanol tariff, you agree?

MR. MOREIRA: Yeah, but as I understand it was dropped by the Congress. It isn't an issue in the Congress. Something that helps to advance the agenda. And there's a few other tariff picks. There's problems on both sides and I think it should be part of the agenda. And the logistic part of it, I mean, just all the regular tourist stuff, you know, the things on the customs, it's not something that, you know, costs a lot of money. It doesn't have a huge political cost in terms of forging a consensus and you can move forward faster with big returns in this kind of issues without you know trying to reach for more controversial topics.

MR. KAUFMANN: Thanks. To the floor now. Who wants to ask the first question? Do we have the mic? And if you can introduce yourself. I know you're the ambassador from Trinidad and Tobago.

SPEAKER: Thank you, thank you. Sorry, I can't stand that much. I'm injured a bit. I'm the ambassador of Trinidad and Tobago, and gentlemen, thank you for a wonderful presentation. But specifically I probably just wanted to make a comment more as it relates to the first speaker.

Very often the Caribbean is almost lumped together with Latin America as a matter of convenience almost. And I'd probably like to make a general comment by suggesting that as an economic space it's fundamentally different and, you know, some of these islands are 600 square miles with a population of 50,000 people but they are categorized as a country. And in many instances have different tax base or, you know, unsustainable economic development. So it can become a bit of a challenge when the region is seemingly functionally categorized with Latin America. Geographically, surely. Geopolitically in many instances but economically, if it's not almost peeled off as a region and treated with its own idiosyncrasies it will forever be limiting and prohibitive to all development. So it's just a general comment I wanted to throw on the floor. Thank you.

MR. KAUFMANN: Thanks. We'll collect a few more if that's okay and we'll come back to your comment. Who wants to comment next? The lady at the very end. That's good that we have good geographical representation.

MS. MORRIS: My name is Cori Sue Morris. I'm a Master's candidate in Latin American studies at GW and I also am the communications manager at a social compliance nonprofit.

My question was a lot of times these summits you just sort of, you know, they're good for relations between the countries but nothing actually happens. Are there any sort of goals do you think particular nations are hoping to achieve with the United States? And do you see these actually meeting with success after the summit?

MR. KAUFMANN: That was great. Thank you. Go ahead.

MR. WEST: My name is Simon West. I work as a consultant at Control Risk. We're a risk management firm focusing on Latin America.

I have a specific question about the balance of growth in Latin America because there's a lot of sort of agreement around the progress the region has made over the last 10, 15 years. But it strikes me as somebody who goes down to the region a lot, a lot of it is very heavily focused in urban centers. And you go out into the rural areas and there's still huge poverty, there's still huge disparities and you have communities that are being sort of very much kind of split apart by young people either migrating to the cities or to the United States. My question is around kind of is that a kind of sustainable growth given the huge disparities that are emerging between rural and urban areas and what threat could that pose to stability in many countries over a longer term?

MR. KAUFMANN: Thank you. We'll take one more now and then we'll come back to the panelists and then get back to the audience. Please.

MR. NELSON: Hi, David Nelson from GE.

Infrastructure investment was raised as one of the key factors determining growth that countries are focused on, and yet Latin America lags significantly behind East Asia in development of infrastructure. It's great that capital increased for the IDB and so forth is being implemented and yet the Asia Development Bank as a matter of policy dedicates 80 percent of its funding to infrastructure. The IDB, I think, has a much broader mandate and doesn't have that kind of a focus so it's not clear that the money is going there. And you look at things like Brazil preparing for the sporting events. There's a lot of questions about whether infrastructure is catching up. What can be done to increase the amount of funding for infrastructure? How can that be accomplished in Latin America?

MR. KAUFMANN: Okay. Why don't we come back to Leonardo first and then -- all of them are relevant for you so go ahead.

MR. MARTINEZ-DIAZ: The Caribbean, absolutely you're right that it's a very different region in terms of its economic logic, in terms of geographic composition, and we have one of our desk officers here, for example, is just focused on the Caribbean and we just traveled -- several of us in our office have traveled recently to the Caribbean to try to understand really the very unique challenges that the region is facing. That's why when I mentioned during my speech regional institutions, you know, one of the things we're trying to do more actively is to engage with the regional institutions of the Caribbean that really have a better understanding and potentially some solutions to some of the Caribbean's problems.

One of the key issues, of course, is that many of those economies are not complementary; they're producing the same things -- tourism, financial services -- and therefore there are some barriers to integration, which is something that we have been trying to encourage for a long time but ultimately you need to have strong incentives, economic incentives for integration in order for it to work. So we're planning to work more closely with both governments in the region and yourself as well if you want to participate in these dialogues to see what else can be done. Partly because the Caribbean, as you know, many of the countries fall in the kind of middle income and sometimes high income groups and therefore they sort of no longer apply to some of our bilateral aid programs. Maybe that's appropriate but we need to find another way to engage in a productive way with the Caribbean countries in the region as a whole.

In terms of the goals of the summit, I think the summit has, I think, a couple of purposes. One certainly is symbolic. It is important that all the presidents of the region come together at least once every few years as a sign of solidarity and also a lot of what happens at these meetings doesn't happen in public. It's the bilaterals, the opportunities for presidents to exchange views in a frank way on ongoing issues and that's really quite important. And let's not underestimate the importance of presidents getting to know one another, of interacting one-on-one. That becomes actually quite useful when it comes time to negotiating or to dealing with sensitive issues. It's much easier once you have actually met the person and have spent some time getting to know them.

And of course, you'll see, I think, a number of important initiatives that will be announced at least by the United States having to do with many of the issues we've talked about here -- energy integration, infrastructure finance, diasporas and so on. And I think once they are announced you'll see that there is quite a rich, you know, set of possibilities there. Not all perhaps will be in the category of macro transformational projects but many of them have the possibility of having this kind of multiplicative effect.

Urbanization and the balance of growth. Extremely important. There was recently a paper I think from Goldman Sachs suggesting that Latin America is one of the most urbanized regions of the world and yet it hasn't fully capitalized on the economic benefits of cities. I think as we go forward, you know, how to build and improve smart cities will be an essential challenge for Latin America. It not only relates to security and instability but also to how do you actually turn these cities into hubs for innovation and entrepreneurship that can become engines of growth. And I think you'll see a lot of that in the future.

In terms also of how do you -- not everybody is going to live in cities, of course, and there will continue to be parts of countries that are, as it were, off the grid. And a key question for us at Treasury is, well, how do you include some of those populations into the financial system? I mentioned during my speech financial inclusion. That agenda is exactly focused on that. How do you get, you know, populations that are not part of the formal banking system to tap into that system? How do you use mobile technologies? How do you use, you know, new approaches in banking and other financial services to make sure that more and more people can participate in the essential element which is financial services, insurance, savings accounts, loans, mortgages even if they're not necessarily smack in the middle of a major metropolitan area. And I think you'll see a lot of really important advances in this area in the next few years.

Infrastructure, finance, and infrastructure in general. Really critical. It is one of the key bottlenecks in order to really, you know, emancipate the full potential of the region. And the problem is that a lot of capital is needed. A lot more than governments can provide. A lot more than even current savings levels in countries suggest can be provided. And so that means that new sources of capital will have to be tapped. We're encouraged first of all by the rise of new institutions, the expansion, for example, of the CAF that I mentioned is useful because it provides a new source of pooling capital for infrastructure. We're increasingly talking to the U.S. financial community to try to understand what new products and what new vehicles could be perhaps attractive to them in order to pool capital and make it available for Latin American governments to put into infrastructure investment. And ultimately what we really want to try to advance, and I think our Brazilian counterparts are very interested in, for example, is how do you build long-term capital markets in these countries? That's in some ways the Holy Grail. How do you finally build local currency markets for long-term investments? And that is something the U.S. has been able to do over time and I think it's an experience that a lot of people are interested in and want to know more about because that's ultimately how you're able to tap and mobilize very large amounts of resources without having to worry about exchange rate risk. And that's I think something you'll see increasingly discussed in the economic and financial dialogue in other forums.

MR. KAUFMANN: Thank you. One possible issue which usually the most interesting issues in summits are not necessarily on the agenda and they're pushed by some constituencies, and I assume the issue of drug trade will come up with a lot of pressure from some Latin American governments. Is it safe to suggest that the U.S. will not be able to offer for political reasons any new breakthrough policies on that issue? Because that's one of the elephants in the room that will probably come up even though it's not formally in the agenda.

MR. MARTINEZ-DIAZ: Look, I think you have already a change dialogue about the problem. Right? So, you know, a couple of years ago we already had a greater appreciation for the fact that it's a two-way problem, that it's not just about drug production but it's about drug consumption. It's about weapons and financial flows in both directions. So I think as a first point of departure that was a significant step.

The question now is what do you do about it? How can we do this together? And I think in terms of the sort of drug legalization argument, I think you won't find too much sympathy for that because the U.S. already spends quite a lot tackling the problem of demand. There's been quite a lot of progress over the last few years in reducing demand and frankly, the options for doing something different are complicated and there's not a lot of easy silver bullets in this problem. And I think there won't be any silver bullets offered at the summit. The question is how can we use the collaborations that we currently have, both in terms of interdiction of financial flows, improving security, governance and so on, how can we do better in those areas?

MR. KAUFMANN: Great. We'll go in a minute but I want Mauricio to comment on particularly the good infrastructure question from Mr. Nelson from GE, and I want to push you beyond what we all know and your bank and yourself has been saying for so many years which is obviously infrastructure is crucial for development. But there are serious questions also on composition and I'm glad that you raised the issue of Brazil and the World Cup and the questions about it because some commentators would say good thing that they're not spending as much as they should be spending according to FIFA. You know, these wonderful stadiums and so on. South Africa is a good example of totally misguided billions of dollars expenditure for World Cup at the expense of education. Hopefully that's not happening in Brazil but there is an issue of composition, particularly because the governments have to find the money, have to spend the money and the revenue goes to Switzerland, goes to FIFA. So that's an issue of global governance which is for a different debate.

So let me push you not only in terms of the obvious importance of infrastructure but when there are the funds, are they being spent smartly on the composition issues?

MR. MOREIRA: Yeah, Very briefly, yeah, you make a good point. The IDB is basically an infrastructure bank and the IDB has all this agenda, you know, education. The IDB spends between 30 to 40 percent on infrastructure and the rest is education, institutional, you know agenda, social agenda in general, which is obviously a key issue for the region as well. And obviously we have a budget constraint, you know, basically set by our shareholders.

MR. KAUFMANN: I was just relieved a little by Leonardo.

MR. MOREIRA: That's right. Yeah. But you can always say there is not enough money; they need more money. And I just happen to think that particularly for the large countries it's not a matter of money and things are much more a matter of priorities. Instead of spending money, a lot of issues that are very questionable in terms of a return they can bring, if they get, you know, their priorities right and get the importance that infrastructure can have on social issues but particularly in terms of trade. To allocate those resources to those kinds of objectives would make a huge difference. And there's also something that you already mentioned, how do we spend those resources which I think is critical. An account like Brazil, is in the major bottlenecks, the ability to implement those projects, you know, in an effective way and to put together a regulatory framework that would, you know, give the private sector the right incentives to participate in this effort. You know, if you manage to do those things and to get your priorities right and to build, you know, a regulatory framework that promotes and reduces uncertainty for private investment, it's not going to be an issue about money.

MR. KAUFMANN: Thank you. One thing I think that even Leonardo will agree with me that has been totally constant in the U.S.-Latin American relationship and tradition over the past 20 years is that we are always seven minutes late. So we started seven minutes late. If that's okay with you we'll have another round and come back to the panel even if we go a little bit beyond the noon. I see quite a few nods. Since the microphone is here we'll go here first and then we'll go to you in the back.

MS. LEFEBVRE: Thank you. And thank you for a great presentation. My name is Patricia Fernandez LeFebvre and I'm from South Florida. And clearly our whole economic situation in Florida is so dependent on Latin America. One of the issues that we're facing obviously right now, and my question is to both gentlemen, how do your agencies play into this is that we have a lot of Latin Americans, particularly Brazilians that come and support our area that want to establish businesses which would certainly help our job market. But the visa situation is almost impossible. How are you able to influence that? Thank you.

MR. KAUFMANN: Thank you.

MR. TALLEY: Ian Talley, Dow Jones.

Talking about infrastructure needs, Mr. Martinez, you referred to the necessity to deepen capital markets. There's been several complaints however that the new Basel rules requiring higher capital standards are going to force particularly the emerging markets to impede development and deepening of those capital markets as well as the Volcker rule. How do you balance -- you say that there's a need to deepen capital markets, how do you balance that need and these new capital requirements? And do you see a way through this? I'm happy for you to answer as well.

MR. KAUFMANN: We'll take two more and then we'll come back and end with the panel.

SPEAKER: Thank you. My name is Yuni. I'm from Mitsui Company, a

Japanese multinational. The question is about Rio+20. How is the U.S. priority for agreeing stuff through the Rio+20? And also IDB? How IDB is going to prioritize the opportunity for infrastructure investment? Thank you.

MR. KAUFMANN: Right behind you, the last question.

MS. WILKINS: Hello. Thank you again for a great presentation. I'm Sherrita Wilkins with Partners of the Americas.

My question is directed toward Leonardo. You highlighted some of the areas of cooperation between the United States and some of Latin America's bigger players like Mexico, Colombia, and Brazil. However, we do have some strained relationships in Venezuela and Cuba and other parts of the region. How do you see the initiatives you plan and the Treasury plans to implement in the region affecting those strained relationships with the countries?

MR. KAUFMANN: Great. We'll come back to Leonardo. Feel free to provide the answers to the questions, but also if you want to make a conclusion remark after that because this is your last chance. And then there was a question to you, too.

MR. MARTINEZ-DIAZ: Look, on the visas issue, obviously that's not in the competency of Treasury. What we can say though is that going back to my speech the issue of the diasporas and the capacity of the region to provide skilled labor to improve competitiveness and innovation in this country is quite important. And the interagency discussions about that, you know, that's one of the issues that we want to raise as one of the agencies primarily concerned with the health of the U.S. economy.

In terms of the Basel and the Volcker rule, both of those sets of rules in the case of the Volcker rule still under development in terms of the actual regulations, those are seen as really important elements for an enhanced and strengthened international financial system. We believe that they are necessary in order to make the system a little more stable and to prevent the kind of crash that we have seen in the last few years which has had such high costs for all of us. And so I think a lot of the international community agrees that these are really important parts of the system in order to keep it stable. Now, in terms of actually balancing some of the elements that he mentioned and applying the Volcker rule, for example, is a highly complex, you know, piece of regulation and we'll touch on very many elements of the financial system. And because of that the government has expanded the comment period for all kinds of stakeholders to provide their feedback, and we're currently going through a careful process of reviewing those comments and we will discuss with other countries about what kinds of implications are there going to be for debt markets and other kinds of financial markets and what kinds of precautionary, you know, changes may be necessary. And most importantly, what is the phase-in period that would be most appropriate? And so those are still ongoing dialogues but we're very much paying attention to what all the stakeholders are telling us.

On Rio+20, I'm afraid I don't have a lot of detail. That's a different part of the Treasury and the State Department, of course, which is leading a lot of the work there. Needless to say, we are especially interested in finding new ways of using innovative finance to try to improve, you know, green development in general, and I think that's something that we will continue to push at Rio+20.

And finally, on strained relations, you know, you're right that there are some countries that are not necessarily part of the sort of framework of stability and growth that I mentioned, and you know, we're concerned that because of the policies that they are undertaking they're going to have a lot less room to maneuver in case there's external shocks, in case there's commodity price changes. One of the advantages of having the stability and growth framework I talked about is that it allows for more flexibility. It gives you more wiggle room in terms of your fiscal policy and monetary policy and so on. Some of the countries that you mentioned don't have that kind of wiggle room and their policy choices have not given them that kind of cyclical capacity. And so we're concerned that because of that framework if the situation changes abroad they won't be able to react quickly enough. And so we're trying to encourage these kinds of policies to be put in place so that they have more flexibility. And more generally I think there's ongoing dialogues to continue to see where there can be room for progress on financial and commercial issues.

MR. KAUFMANN: Thank you. Mauricio.

MR. MOREIRA: And just very briefly, yeah, I agree with this issue that more regulation on the financial system is going to reduce the room for financial institutions in the region to expand credit, and this might, you know, be costs, particularly because they have already done their homework, you know, years before. But at the same time, nobody benefits from a world financial crisis like we had before. So if this is the price we have to pay to have a more stable world financial system I think I would favor a movement like that.

And on the Rio+20, I don't have the specifics of what the bank is going to do there but I'm sure they're going to keep pushing its agenda of trying to develop an infrastructure but, you know, with a clear eye on environment, try to have projects that balance those costs very cleanly. Not much more than that to say.

MR. KAUFMANN: Thank you, Mauricio. I think it's very appropriate, and you're being so good in managing expectations in terms of major achievements at the summit itself, but who knows, maybe something wonderfully unexpected may happen. Why? Because after all, and you did not mention that, the setting is going to be probably the most magical in all of the Americas and that's Cartagena, Colombia. So maybe something will happen.

So thank you very much for you, Mauricio, and for the audience.

(Applause)

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