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GLOBAL TRADE NEGOTIATIONS AT A CROSSROADS:  
HOW DOES LATIN AMERICA FIT IN?

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## P R O C E E D I N G S

MR. TALVI: So we have assembled today a formidable panel of experts to discuss major shifts in the landscape of global trade negotiations and how they are likely to impact on Latin America. Whatever the reason, be it that the World Trade Organization is a very complex forum to make progress in highly sensitive areas such as intellectual property, services, harmonization of safety, health and technical standards, government procure, et cetera, be it that emerging powers such as China and Russia are more committed to state capitalism and there's a need to preserve an open rules based international order, whatever the case might be two mega regional trade agreements are emerging, the Trans-Atlantic Trade and Investment Partnership between the U.S. and Europe and the Trans Pacific Partnership between the U.S., Japan and other Asian and Latin American countries. These two agreements cover a huge share of global trade and therefore this so-called high standard 21st century RTAs have the potential of changing the landscape of global trade negotiations as we know them. These mega RTAs are likely to include only countries at similar stages of development or developing countries that are willing to accept developed country standards in exchange for market access. Many emerging countries could thus be marginalized from the process.

How should Latin America reposition itself strategically in light of these changes? Are the apparently irreconcilable orientations of the Pacific Alliance and Mercosur, the two major trading blocks in the region, an insurmountable obstacle for a common regional strategy? How all these mega shifts in global trade negotiations will play out for Latin America? How are the governments of the region likely to react to these changes? Is this an opportunity that the regional should grasp? Hopefully the panel will help us answer some of these questions and we are looking forward for a highly engaging discussion; there's much to be learned. I will now pass the floor to

Harold Trinkunas, my esteemed colleague, Senior Fellow and Director of the Foreign Policy Latin American Initiative who will moderate the discussion. Thank you.

MR. TRINKUMAS: Thank you, Ernesto, for your introductory remarks. My role in this event is more to be one of moderator and perhaps provoke some discussion. The rules of order is that we'll start out with approximately 10 minutes of discussion from each of our panelists followed by about 20 minutes or so of the discussion among you, and then we'll turn to the floor for questions from the audience.

So without much further ado allow to me to introduce our panel members, Antoni Esteveordal, from the Inter-American Development Bank who will lead off the discussion, followed by Joshua Meltzer, a Fellow with the Brookings Institution, and Jeff Schott, Senior Fellow at the Peterson Institute for International Economics. Toni, if you'd like to lead us off for about 10 minutes.

MR. ESTEVADEORDAL: Thank you very much, Harold. Thank you very much, Ernesto, for the mediation. Let me just use this 10 minutes to maybe talk a little bit about -- to put a little bit into context -- in which Latin America like we have today in the context that Ernesto was mentioning. And I also just kind of mentioning that the meeting, Global Trade Negotiations at a Crossroads: How [Does] Latin American Fit In? is a great title for 2014. It probably would have been a very good title also 20 years ago. And I'll talk a little bit about what happened 20 years ago to put a little bit in the context of where we are today which I think is very important to understand where we come from in terms of the way that Latin America is integrating to the global economy.

Twenty years ago in 1994 actually is the same -- kind of 20 years exactly, we had very interesting conversations of potential deals for Latin America at the time. We have first a very active multilateral system, relatively active at the time. We just finished the Uruguay Round; we launched the global WTO in 1995. This was the last

agreement until the one that we got last year in Bali so it was a relatively active multilateral system in which Latin America was playing quite a big role. And we had three initiatives at the same time that competing with each other in a way. One was the left FDDA that which -- was launched also in 1994, mostly driven by the United States. This is a very interesting initiative one thinks about today. There were the 34 plus countries in the Americas with the United States and Canada sitting together negotiating a trade deal, which was 20 years ago, every single country on the table. At the same time we had Mercosur that was trying to put together at the time the customs union, so in a way to consolidate the all way of doing integration in the region based on customs union following the European model. Let's remember that there are very few customs unions around the world; only basically in Latin America besides the European Union and some case in Africa. So a very specific way of actually integrating into the global economy and Mercosur was leading the way at the time. And then we have NAFTA also in 1994, which was a completely new way of making these type of trade deals. This is the first agreement between the North and South country in our region, between the United States and Canada. So we had kind of the full menu of possible ways of engaging with the global economy and with the regional partners. We know very well happened afterwards. The only real initiative that really took over and became the model for the rest of the regional was the NAFTA model, was the both bilateral agreement. And as you know the story from 1995 up to now has been this proliferation of FDAs, bilateral agreements in the region. Not only in the region but also of trade region. The FDA got stuck, the Mercosur we know what's happening with these customs unions in our region, and of course the WTO also got in a frozen war. So it's very interesting to look back at what the region -- that mainly the region had at the time. The balance of what has happened is quite positive. I mean when you look at what the region has been able to

achieve in these 20 years of what we call now preferential liberalization, liberalization through FDAs, it's quite impressive. I mean the tariffs have come down very fast. This is one of the regions that has dismantled tariffs at the fastest pace on a preferential basis. There's some evidence also that is this preferential liberalization what has also led to unilateral liberalization. As you know the WTO just deals with bound tariffs, the MFN tariffs, the one that you are actually applying to your neighbors has also been coming down very rapidly in a parallel way to the preferential tariffs. So there has been a lot of preferential liberalization. We have removed most of the traditional costs in terms of doing trade when we talk about tariffs.

What happened from '94 to now which I think is very important to remember how the context has changed and see how the region today is facing completely different challenges. And I want just to mention five big structural changes that were not on the table 20 years ago for the region. The first one is Asia. We know very well that Asia was not in the picture 20 years ago. This is something completely -- it's a new market for the region. Ten-fifteen years ago, this is when we start trading and competing with this region, especially China. If you look at the figures before 2000 Asian share of Latin American trade is less than 10 percent, it's more than 20 percent. So this changes completely the importance of a partner that was not in the picture of Latin America. Second big change in the way that the global economy works is what now we call this emergence of global value change or the fragmentation of production. This is a completely new way of doing business in which the production is split across borders. The numbers is a little bit more difficult to pin down here but we have done some recent research and there's two ways of measuring the level of fragmentation and how a country participates in this kind of global value chain. One way of looking at that is how much of your exports incorporate foreign value added from other countries, so how much of what

you sell comes actually from things that you import. The number for Latin America is from 20 percent versus 40 percent; we're far from the levels of integrations that Asian countries have. Another way of measuring this is how much of what you export becomes foreign value added of other people's exports. The numbers here are more similar between Latin America and Asia from 30 percent, but of course very different. We export mineral or natural resources that we can input for other people's exports. In the case of Asia it's mostly intermediate resource. But still we are far from the way that Asia participates in this global value chains but it's a completely different way of doing business and of course has implications for the way we conduct trade policy. It's very different to the trade policy today in this fragmented way of producing things than 20 years ago. Third, and this is related to what I just said before, is this complex architecture. We have this huge mess of trade agreements around the world. We have more than 300 active preferential agreements that have been negotiated. The calculation is that around 40 -- depending on how you do the numbers -- between 40 and 60 percent of global trade is conducted under preferential -- on a preferential basis. So this is a completely new way of what we had a few years back.

And a couple of more things that are also important for context, one is -- and this I think explains what I said before in terms of the -- at least in this region the way that we have dismantled traditional costs, basically tariffs, the real cost for business today related to infrastructure, related to logistics, the way that you actually can move physically goods from one border to another, this is the real bottleneck in terms of trade costs for the regions. And I think -- and of course these costs for a completely different way of thinking about integration.

And the last point, very briefly -- maybe we can talk about this later in the discussion -- the private sector. Most of the way that the -- not all countries but some

countries in the regions -- the logic of integration in many, many cases has the logic of the private sector is more bottom up than top down approach. And where we are today after these 20 years in 2014, I just mentioned these kind of big structural changes, the region faces a context in which in a way you go back to the mid-'90s. You have again maybe -- and Jeff probably will have lots of things to say here -- a renewal of the WTO, of the multilateral system. At least we have seen some action last year in Bali so the multilateral system seems that it's ready to work again. And you have a completely new scheme that Ernesto was mentioning on regionalism. And here I think the challenge is it's a challenge of what some people have called it how to recalibrate the system that we have today. We have these -- on the one side you have the WTO, the multilateral system working maybe again, and you have these new agreements appearing in the negotiations. And I think there are two things that are in -- to do down the road. One is a task of aggregation. If you have so many agreements that involve so many countries one of the challenges is how you aggregate some of those agreements into larger pieces of negotiations. This is what we call sometimes conversions. We have to pick up several agreements and put them together. Most of the TPP is among countries that have already agreements among themselves. The Pacific Alliance, which is a very good example of what is happening in terms of conversions in our regions is exactly that. This is countries that have very modern agreements among themselves and they're just trying to harmonize to get converged into some sort of -- so there's this issue about aggregation of what we have and this is the role of, for example, the mega regionals. And then the other thing that is missing is what we can call connecting the missing links. There are some big missing links that have not been connected through what has happened in the last 20 years, and there are two big missing links. One is among big northern countries and you see the U.S. and the European Union trying to get an agreement, but also you

see Japan in the game, Canada and so on. So there's a big north missing link that has not been yet connected. But also there's some missing links among big south countries. You know, the big in the south have not yet been connected by this. There's a problem of -- or a task if you want ahead of us in terms of aggregation that what has already been achieved but also of connecting links that have not yet been connected. I can talk a little bit maybe in the discussion about how specific initiatives are dealing with this. I know more closely what is happening in the Pacific Alliance. I'm sure that my colleagues will -- can talk a little more in detail on the TPP or the TTIP. But maybe just to finish in the last minute here, what are the kind of the scenarios that -- I mean of course we don't have answers. From the point of view of Latin America what are the potential scenarios? In a context in which the WTO seems to become more active and in the context in which the agreements have to be in a way recalibrated on what has happened in the last 20 years. Many things can happen. One -- and Jeff has discussed this at length in several papers - - is maybe we could witness what we witnessed in the mid'90s where the big regional agreement imports some pressure on the WTO. This is what NAFTA did for the Uruguay Round. Some people have thought that maybe the TPP, TTIP will also do the same thing for the new multilateral rounds in Geneva. So there's this potential impact on the regional -- to the WTO. And in the context of the region this is a -- I think this is a much, much more complicated scenario. Here you have a Pacific Alliance that is bringing together countries that have almost -- I'm saying not almost in an underlying way -- almost never be part of traditional blocks. Mexico has never been part of a traditional block of integration in the region. Of course it's separate from NAFTA. And Chile; Chile was part of new community at the beginning, it's an associate member of Mercosur, but those are two countries that they were never favor the old model of integration. Now they are the main leading countries of this new initiative, this new block which is called the Pacific



Alliance that could eventually spread through Central America with Costa Rica and Panama first and maybe other countries who have completely kind of this new model of integration in the Pacific and of course you have the Mercosur on the other side. What will be the interaction between the two and what will be the interaction of these two with these other extra regional, many regional agreements is. Maybe I'll leave this on the table for further discussion now and maybe probably into the future. Thank you.

MR. TRINKUNAS: I'll turn to now Joshua Meltzer, a Fellow at The Brookings Institution.

MR. METZER: Thanks. So in my 10 minutes I am briefly going to focus on the TPP and what this might mean for Latin America. And I choose the TPP partly because it's really the most active trade negotiation hopefully close to being finalized. The WTO is going through a process; it stopped taking at the moment, the transatlantic deal is slowly making progress. And I think it's also interesting because it's a trade negotiation which has some Latin American countries in, some Latin American countries out. And I think it's useful to demonstrate basically the premise which is that Latin America is going to experience this in very different ways and the impacts of the TPP is going to be different depending on a range of factors. Just briefly, and I'll go into what its factors are shortly, but just briefly for those not familiar with the TPP -- I'm assuming most are -- 12 members, United States, Japan, Australia, New Zealand, Peru, Chile, countries in both South America, Central America and also in Asia. Approximately 40 percent of global GDP, a third of world trade, aiming to turn this into a larger trade agreement, FTAA of the Asia Pacific is one of the goals. Other countries have indicated interest, South Korea one of them, Taiwan, others. And so there's a set of members with momentum behind making progress on a whole range of WTO, plus rules, rules that are not in the WTO, also rules that go a lot deeper than the agreements in the WTO, sort of being held

up as the gold standard. A trade agreement by the United States where it will be setting the template rules for the trade investment in the Asian Pacific region, sort of this century and beyond.

In terms of the impact of this on Latin America my sense is it's worth looking at three variables here. One clearly is which countries in Latin America are in the TPP. So in this respect Chile, Mexico and Peru are all TPP members. Another important dimension here is the extent I think that countries in Latin America have FTAs in the United States. And the reason I say that is because essentially the United States is still the number one or two trading partner for most countries, not all countries in Latin America. I mean often that's China or the United States and it just depends on the country. And then so just as an aside fact I think an important bit of this is what does China in terms of the TPP for Latin America? Because I think certainly it's important that the U.S. obviously is the leading country in TPP, but certainly in terms of China's decision going forward this will have a significant impact on Latin America as well, again depending on whether they're in the TPP or not. So if you look at countries in Latin America with FTAs with the United States, it's Columbia, Panama, Central America, Peru, Chile, others, and so this is also going to be another variable which I think will have an important impact on -- the impact of the TPP effectively on these countries and I'll go into that in a little bit more detail.

And I think another important dimension which we've already touched on briefly is whether that country is part of Mercosur or the Pacific Alliance. Now Mercosur is a customs union, Brazil, Argentina, Uruguay, Paraguay, Venezuela and Bolivia, all countries which are not part of the TPP. Interestingly the Pacific Alliance which is a new arrangement, which is Mexico, Columbia, Peru and Chile with Panama and Costa Rica as potential midterm candidates. And just a bit of background on the Pacific Alliance, it's

a new arrangement with less visibility I think. Approximately 200 million people, 30-35 percent of Latin American GDP, 55 percent of exports, essentially built up of existing FTAs between the Pacific Alliance countries. So the focus of the Pacific Alliance interestingly has been in addition to the trade pact has been in areas where you don't traditionally see a lot of integration at least early on. So on capital markets, stock exchanges, trying to eliminate visas in particular, categories sharing embassies in some respects overseas. So it is an alliance with definitely a trade making focus but certainly ambitions to go significantly broader than that. Within the Pacific Alliance obviously we have an interesting combination where Mexico, Chile and Peru are all TPP members and all the Alliance members have got FTAs with the United States.

So this leads me to I think to simplify all this and to make my point I'm going to focus on two countries in Latin America, Brazil and Columbia. And I do this because they're both countries which are not in the TPP, one of them has an FTA with the United States, Columbia, one of them does not, Brazil, and one is a member of the Pacific Alliance, Columbia, and one is a member of Mercosur, Brazil. When I think through what the potential impacts then of TPP are going to be firstly I divided it essentially in terms of market access and rules. On the market access side the United States is Brazil's second largest trading partner. But I think once you add in a couple of TPP members, specifically Japan and Mexico, certainly that group is the largest trading partner for Brazil; number two then would be China. Now for Columbia the United States is by far away the largest trading partner, approximately 35 to 40 percent of exports. So the impact -- now -- but the impacts are going to be somewhat different. Because Columbia has an FTA with the United States what Columbia is really going to be concerned about here, at least from a market access point of view, is erosion of its preferences under the FTA. Now it's not clear -- I mean I think we could assume that the

United States on a market access side is going to grant at least as preferential market access to TPP members as it does to Columbia. So Columbia can assume it will be if not on a -- possibly on a level playing field, just certainly in terms of market access with TPP members possibly the margin's slightly worse off in some areas if the United States goes further in the TPP context. For Brazil of course though no FTA, not in the TPP, so they're going to face significant preference discrimination as being not part of the TPP. So in this sense the TPP is going to be more negative, more harmful from the market access perspective on Brazil than it would be on Columbia.

Just quickly on a -- I just want to mention supply chains briefly because it's -- I think what the TPP will do briefly here is it will reinforce I think the regional North American supply chain, NAFTA essentially, but possibly present some opportunities for extending this further into other TPP countries in Latin America remembering that supply chains tend to be regionally focused. And I think here what's interesting is that Columbia as part of the Pacific Alliance possibly will still be out of being involved in the development of these supply chains through the type of trade integration that's going to happen amongst those members and those members' participation in the TPP whereas I think that Brazil being part of Mercosur which has got no links into the TPP essentially is going to be left out of development of both supply chains, you know, to the extent that they are going to be driven by the TPP.

On the rules bit certainly as I mentioned I think that TPP is going to be a new standard for a whole new range of rules in the Asian Pacific region. And Brazil and Columbia, neither of them have a voice at the table in terms of shaping these new rules. But again here I think Columbia's FTA with the United States is important because in many respects Columbia is very familiar with the type of high standard rules that the United States requires in FTAs. A lot of the rules in the Columbia/U.S. FTA will in fact be

in the TPP. The TPP will certainly go further but in many respects Columbia has already been part of a negotiating process with the rules which are going to be similar in a lot of respects to what is already in the TPP. That's obviously not going to be the case for Brazil.

So just briefly in conclusion I think that the impact of the TPP as in the example I used, it's going to vary across Latin American. And I think one of the key things to think about is whether or not the countries are in the TPP. Obviously I think whether they've got an FTA with the United States matters here significantly and also whether not they're part of Mercosur, Pacific Alliance, two trade groupings which are looking increasingly in different directions is also going to be a key determinant. Thanks.

MR. TRINKUNAS: Thank you, Josh. Turning now to Jeff Schott from the Peterson Institute for International Economics.

MR. SCHOTT: Well, thank you very much. I appreciate the opportunity to join this distinguished panel. Toni started talking about 20 years ago when he gave very apt references to the situation then versus now. I'm going to go him even further and start 40 years ago because 40 years ago I left this building and went to the Treasury to be a government official and U.S. trade negotiator. And I spent much of my first few years spending time in Mexico and Brazil trying to get them to open their markets and expand and participate actively in the global trading system with limited success that much of which was rolled back at the start of the debt crisis in the early 1980s. It didn't matter that much in those days because there was much less international competition. There is much more competition today so it matters whether you are globally engaged or not and that's where I want to start building on the comments that we've heard so far.

When I think back at Brazilian trade -- when I look at Brazilian trade policy for example today it reminds me far too much of Brazilian trade policy in 1978 and

that's a problem for the hemisphere. I'm not going to give you a 40 year retrospective of my work on Latin America; that would bore you to tears. The last decade though one could put a label on it that you often hear with Latin America. And with regard to trade policy we've had a lost decade for trade negotiations for Latin America as a whole. To be sure the Pacific Coast countries, excluding Ecuador, have turned North and West and have engaged in bilateral and regional initiatives that we've talked about so far. The Mercosur countries by contrast have followed a flawed strategy of engagement driven by politics and ideology, putting priority on intra-Mercosur expansion with a political focus, on expansion and trying to unify a group of very different countries called the BRICS where there is no unity and where there has been a lot of wasted effort. So we've seen the collapse of the ALCA or FTAA negotiations, we've seen extended drift in the Doha Round of WTO negotiations, we've seen EU Mercosur negotiations struggling and adrift and unlikely to succeed, and we've seen U.S./Mercosur relations strained with inauspicious prospects for future success. What this has meant is that the countries that have focused on global engagement have moved forward but not with regard to their neighbors and the neighborhood. And those who that have not focused on global engagement or have put more priority on ideological issues have fallen back. You look at U.S. trade relations in the region, the U.S. trades more with Mexico than the rest of Latin America combined and U.S. exports to Mexico are five times greater than U.S. exports to Brazil. U.S. imports from Mexico are 10 times greater than U.S. imports from Brazil. Clearly geography has something to do with it but it doesn't account for a large part of that difference and deeper integration accounts for a substantial part of it.

So what I wanted to focus on is countries that are engaged versus countries that are disengaged. And that's the dividing line in Latin America. And there is a bit of a geographic dividing line as well that runs North/South through the hemisphere.

But it doesn't need to be there but it seems to be there for political reasons more than economic ones. On the Pacific side you have the Pacific Alliance that have been reducing barriers within their region, both with the U.S. it's been said and by deepening the integration among themselves. The countries have free trade agreements with each other. The trick is to harmonize those and deepen the integration that had been achieved over the past decade. They are also participating in plurilateral negotiations as a way station to a renewed focus on multilateral trade accord, what I would call a Doha Round plus agenda. Many of them are participating in the trade and international services agreement, probably the most important plurilateral. Some are also involved in the international technology agreement, the second phase for that agreement only Costa Rica is in the environmental goods negotiation which is about to get started. But all of these are very, very important and show a commitment to engagement and deepening ties across the Pacific and with North America. Now there are some membership restrictions that prevent that deeper integration. Some of the members of the Pacific Alliance cannot participate in the TPP because there's an informal agreement that TPP will only involve APEC members and Columbia and Costa Rica are not members of APEC though they've been interested in joining for a long time. I've recommended at the most recent APEC meetings that are now being chaired by China this year that there be a reconsideration of APEC membership so that Latin American countries that are interested and engaged already economically can participate in APEC as new members going forward. That would Columbia, Costa Rica and Panama. That makes a lot of sense and it would balance the three ASEAN members that are also not members of APEC where it doesn't make any sense for integration among the Southeast Asian countries. That's a problem. There's also a membership problem with regard to the Trans-Atlantic initiative which causes a rift as well in the trade relations of North and

South America. But the key thing is the countries are engaged and moving forward to deepen that engagement. And that contrasts significantly with the Mercosur countries where you have a dysfunctional customs union. There's no other way to describe it; it is dysfunction. And so the countries are not gaining by their integration even among themselves. And they are not involved in any of the plurilaterals, none of those countries are. And they have -- they are -- have been split regarding WTO objective and indeed several of those countries are among the major foot draggers in moving the multilateral trading system forward. Brazil has been partly obstructionist, partly a progressive in terms of the WTO for the last decade. Hopefully with a Brazilian now as the leader of the WTO it will take a more constructive view and indeed that seemed to be the case at the Bali WTO ministerial in December where the Brazilian delegation was quite helpful and led their former leader to a successful conclusion of the first WTO agreement in 15 years.

So that leads one to the final question -- in less than two minutes I will finish it -- and that is how -- what's going to happen going forward? I think there's a clear signal that the Pacific Alliance countries will become more globally integrated, will continue that pursuit because they're small countries and they don't really have an alternative, they have to engage. And they know it and they have good people to move them in that direction. Whether Latin America becomes more integrated will depend importantly on Brazil and its Mercosur partners. Will they remain shackled to an ideology that focuses on political matters in the region instead of economic integration, or will they become unleashed and become more active and constructive members of the multilateral system? If they do that then there's a great opening for increased ties with Europe, with the United States and for harvesting the gains from new agreements in the multilateral trading system. And I'm hoping that with constructive work with the United States and others that we'll see a turnaround in the Mercosurs so that we can see more global



engagement and regional integration in Latin America as well. Thank you.

MR. TRINKUNAS: Thank you all for this very illuminating discussion that really covered the waterfront of global trade negotiations and Latin America's place within them. I think we'll start with -- I'll start by posing a couple of questions to the panel to motivate some initial discussion and after about 10 or 15 minutes of discussion we'll open it up to the floor and take some questions from the audience.

It strikes me that in listening to this discussion, I mean we've been I think correctly focused on the countries that are most active in these mega trade negotiations and in the multilateral trade negotiations, a lot of focus on the Pacific Alliance countries and a lot of doubts about the Mercosur countries, but still if we look back at the past decade and the evolution of the regions' economies obviously both Brazil and China have been major players and they have to be looking forward at the scenario that you've posed for us with great concern. And I wonder if I could probe a little more deeply and ask any or all of you to think about what -- how Brazil should look at a scenario where it's basically left out of both of the major international mega trade negotiations. What should its reaction be? There's been some discussion of deep -- renewing talks with the European Union with all the problems that it has of course. And then again China, the major new economic trading power in the region, how does it react to the scenario that you've proposed. And maybe we could just go in the same order?

MR. ESTEVADEORDAL: Let me just maybe talk a little bit Brazil and I think I agree too with what has been said so far. Maybe the only thing I will add is that if there is an opportunity -- we had an opportunity at some point in the last maybe 20 or 40 years in which these changes could occur, could be now precisely because of these -- what I mentioned before and what Jeff was saying, the Pacific Alliance creates completely different counterbalance to Brazil. It's a completely different geopolitics now.

We never had Brazil and Mercosur facing a group of countries in which you have Mexico, in which you have Chile, in which you have all these -- there's a first item in which you have two blocks in the region that in many, many respects will -- I won't say weigh the same, but in a way could give away counterbalance to each other. And we didn't have this before. Mexico has been always isolated from the rest of the region, from Brazil. This one of the missing links between these two countries, there's no free trade agreement because we've tried many times but they never had it. So there's a time in which you could see that this counterbalancing of weights could move -- the action of Brazil could be now. That's one -- I think that's one element. And I think here the game will also be played the U.S. will have a big say. I mean I look at the Pacific Alliance and I see the P and A. If the P will be basically pushed by the United States, you know, get the Pacific side of the Pacific Alliance into the TPP, into the Asia side, and this is -- the lead of the United States will be critical for that particular. The A, the Alliance which is more political kind of direction will maybe also played by -- has to be played by Brazil on the other side. Chile will probably also politically play with the different government now, a different mode of relation with Mercosur. So if we had the moment in the last, you know, 15-20 years in which things could, you know, move could be now. And just one, you know -- and this maybe an optimistic view of the situation -- is that interrelation initiatives, by definition all of them are political. Of course there are economic gains to be made, there's economic rationale behind them but, you know, integration is politics everywhere starting with Europe at some times. Politics dominate economics. Pacific Alliance could maybe tilt the way that Mercosur has gone into the political mode of integration to a more economic mode of integration. There's a chance for that happening. I know that's a little bit an optimistic view but I see that there's a chance for this happening.

MR. MELTZER: Okay. Let me just tackle -- just briefly respond to a bit

of the China element of the question and particularly its interaction with Brazil I guess. You know, I mean speaking in, you know, sort of generally if you look at trade between China and Brazil you've got Brazil which has been selling a lot of commodities, agricultural products, and China in return which has been selling a lot of manufactured goods. And you might sort of at one level suggest that there's a complementarity in the trade which is going to be beneficial to both countries, but in fact it's been really quite a source of uncertainty and friction in many respects. And part of this stems from part of the sort of the ideology and the politics of the way that both countries in fact have been thinking and approaching trade and economic policy. For Brazil in part it's been, you know, somewhat of the status lane and the focus on developing particular, you know, industries in manufacturing sectors which has meant that, you know, that these sectors have felt particularly under competitive pressure from areas of imports from China. I think on the Brazilian side as well I think this resonates a little bit more broadly. In Latin America there's been some hesitation about what the boon commodities process has meant for the country and for the region. I think there's some reflection on previous commodity cycles which have left Latin America, you know, poorer in some respects and certainly credits and levels of volatility. So the extent that Latin America has wanted to get on board wholeheartedly the commodities cycle I think has also been questioned. And on the Chinese side, you know, there's -- China has its own economic model which, you know, it certainly since succession to the WTO has also seen increasing government ownership of the economies, the roles of state owned enterprises and the currency issue in particular has been really a source of friction with Brazil. You know, Brazil in fact has been one of the main leaders in the WTO context in terms of raising the currency issue *vis-a-vis* trade. And in many respects that's been driven by the competitive pressures it's felt from China. So in a sense even though there might be some genuine

complementarities in terms of the trading relationship, the different policies that Brazil and China have been pursuing has meant that the relationship has been a lot more complicated and complex than you might expect. So in a sense their capacity I think to pursue deeper integration between themselves which might be actually one dimension that you would think would be an offspring from both of them not participating in some of these large trade agreements I think is very much colored and not made disposable by these types of models going forward. So the question is whether the reform objectives in China at the moment bear fruit and actually are implemented. And think there's a question mark on what happens in Brazil going forward after the elections.

MR. SCHOTT: Very briefly and starkly, Brazil's policy is too much like 1978. And the way it can revise it is to engage more actively in the plurilaterals, particularly the services agreement and the information technology agreement. That's where there are significant restrictions in the Brazilian economy that are impeding productivity growth. Brazil has to get its act together at home. If it improves its productivity it will increase its growth, opens up a lot of new opportunities for international engagement. If it doesn't get its act together at home then it's going to continue to be swayed by the protectionist arguments.

Now second point, China. China is already well positioned. So it's not a problem for China in the region. And the problem is much more than the bilateral trade which we've been talking about. The real challenge for Latin America is Chinese competition in third country export markets. That's particularly important for Brazil. Not only is China a problem for Brazil with regard to Brazilian imports it's a much bigger problem and a growing problem for Brazilian exporters to the United States and the European Union and other countries. So that's something that should be of concern to Brazil. For the Chinese they're focusing on domestic rebalancing and on deepening their

ties in the Asia Pacific region. They're doing their homework. The question whether they will achieve the domestic economic reforms and how fast they'll move on that is an open question but they realize they have to do that and they're upping their game. So Latin America has to do even better.

MR. TRINKUNAS: Thank you. Let me pose one more question before turning to the audience. And this is one where I reflect back on the panel and that we heard about 40 years ago, we heard about 20 years ago, we heard about today, it strikes me we skipped over about a decade in the middle there where I think there really was at least a --

MR. SCHOTT: That was a lost decade.

MR. TRINKUNAS: A decade of where -- it might be characterized as lost -- but where there was an effort for at least in South America regional integration, where there was originally a vision that Mercosur would expand to include the South Americas as a whole, where Venezuela proposed ALBA with all its peculiar characteristics also as sort of a regional integration mold or framework within the region. Now we see a region which has been characterized as divided between the Pacific Alliance and Mercosur. Do you see those divisions as more or less permanent? Is that South American regional integration vision permanently pushed aside? Is there something organic and inherent in that division that we see going forward? And anybody on the panel can respond to that as you like.

MR. MELTZER: Go ahead, Toni.

MR. ESTEVADEORDAL: Just very briefly I think you just -- I think you answered yourself the question. I think this is extremely -- this is a dynamic, this is very organic kind of type of integration what we have today and it's very difficult to predict what's going to happen, the actual structure 10 years from now, 15 years from now. This

is what learned in these past few years. The key to the question is how you are prepared to actually articulate, be flexible, be pragmatic in this type of -- this is one of the differences between the two projects that we are now just discussing, you know. The Alliance, one of has shown is this great flexibility, great pragmatism, looking for the easy gains, short -- this is something that we haven't seen in the region before this -- the way that they are operating. Jeff was mentioning the case of Mercosur in terms of the customs union. This is one of the big problems with of the region, you know, to have chosen this very difficult way of integrating through a customs union. It's one of the most complicated ways of doing integration. We, you know, we copied from Europe; nobody else has copied this. If you talk to Europeans they now -- they just forgot about this part but this was one of the most complicated stages of integration to set up the customs unions. The advantage is that if you do it well like the Europeans it creates a lot of functionality, a lot of institutionality to move beyond trade issues, you know, in terms of cooperation, energy and other things. But if you don't do it well you just, you know, just miss the two boats.

MR. TRINKUNAS: Does anybody else want to jump in?

MR. MELTZER: Look, I don't have any particular insights. I mean I think probably just picking up on a couple of comments I mean I think possibly a dynamic which we may or may not see playing out is the competitive impact over time and in a sense is the competitive liberalization which, you know, Jeff, you and our colleagues have been talking about. I mean to the extent that -- I mean I think the real division in Latin America -- I mean to some extent the Pacific Alliance, Mercosur, but I mean it's really sort of TPP members and those who have integrated with the U.S. versus the Mercosur side and I think as the TPP finishes and, you know, China in particular which is a very important trading partner for Brazil and a lot of Mercosur countries, you know,

further its reform efforts assuming a success there and they integrate into the Asia Pacific more deeply and the TPP becomes a vehicle for pulling those countries in South America into that orbit as well, I think these countries are going to be increasingly left out. And the question I think is going to be whether the competitive outcomes from that are significant enough to actually drive some reform.

MR. SCHOTT: I'll just add just a quick note. I was very pleased that Toni mentioned the difference between going for a free trade agreement or a customs union in the Mercosur. And that decision was taken in the early 1990s. I recommended to the Mercosur countries while they were in the course of making that decision that they go for a free trade area, it gave more flexibility. But they decided on a customs union as a way of force feeding integration. Even then it was possible that that could be a constructive step and lead to broader hemispheric integration. And you had the FDAA making progress; you had the Mercosur deepening its integration for the first half decade. But it fell apart. And as the Mercosur expanded it lost its economic integration focus and was favoring political objectives which came at a high economic cost. That is not in concrete. It can change if there is enough of an incentive. It's coming at a very high costs to the peoples of Venezuela, Bolivia, Ecuador, and lost opportunities for the countries in Mercosur. But you could see a revival of a type of hemispheric initiative. There's nothing -- no reason why this couldn't be not put together the same way it was 10 or 15 years ago. But drawing on the experience of the Pacific Alliance, drawing on the ties of the Mercosur countries that could be reestablished or deepened with Europe and the United States, you could find a way of putting those pieces back together. So I'm not totally pessimistic but I think the politics is really very depressing at least in the short term.

MR. TRINKUNAS: Well, on that note I'd like to open the floor up to

questions from our brave audience that came out in spite of the snowy weather today. We greatly appreciate that. Let me start with Peter and then I'll take -- go back and forth, the front row and then the back row and I'll keep a list.

MR. SCHOTT: He's going to start with 50 years ago. (Laughter)

SPEAKER: No, no, no. Let me just say that I think you're drawing too stark a difference between the Pacific Alliance countries and Brazil. True, Brazil doesn't have a free trade agreement, it's part of a dysfunctional alliance, but if you look in trade figures between 2000 and 2012 between Brazil and the United States trade has almost doubled. In other words Brazil has a very active external. Secondly is Brazil was exporting commodities to China and to Asia, well so was Chile and Chile is now sort of suffering a bit on the copper. Peru was exporting commodities as well. And so, you know, I'm not sure when you get down into the grass that you're going to see that big a difference in their actual -- sort of what they have actually done and accomplished. And I think things are going to become even more complex as we see that, you know, there's -- four presidents signed the Pacific Alliance in 2010, three of them have now left office. And in each case their successor is probably less enthusiastic about the Pacific Alliance than the original signors, and particularly the last president, Michelle Bachelet, has made clear -- I mean speech after speech, interviews, that their major foreign policy objective is now to repair a relationship with Brazil and to in fact downplay the Pacific Alliance. And the Chileans are now talking about melding the Pacific Alliance which may be right with the Mercosur but I think both sides will have to make enormous compromises to get there. And I'm really not sure Mexico has much of an interest except the political interests in the Pacific Alliance. That is that they want an entry point back into South America and very little to do with the economics.

MR. TRINKUNAS: Thank you, Peter. Do you want a quick reaction or



should we take a few questions first?

MR. ESTEVADEORDAL: Do you want to?

MR. MELTZER: Yeah.

MR. TRINKUNAS: Go ahead.

MR. ESTEVADEORDAL: Oh, you're going to take it?

MR. MELTZER: One -- take more questions.

MR. TRINKUNAS: We'll take two more questions; over here in the front row and then one in the back row and then we'll come back to the panel.

SPEAKER: I just wanted to know how does the need for Brazil to open up effect the upcoming presidential election there?

MR. TRINKUNAS: Okay. Thank you. And I think the gentleman in the tan jacket, white sweater in the back, in the middle. And if somebody has a question over on this side please raise -- okay. I'll come to --

SPEAKER: Yes, I had a question non Chile, following up on that comment. Do you see the change in government there as posing any threat to TPP? And do you think this is more quibbling around the edges and that Chile is actually likely to maintain its long term orientation towards openness or is there is more fundamental shift in play? Thank you.

MR. TRINKUNAS: Thanks. Good set of questions to get us started with. And if any of you would like to jump in?

MR. ESTEVADEORDAL: Yeah, maybe let me just quickly comment on maybe some -- the first question and the last quickly. I don't think we disagree on the geopolitics of Brazil and -- I mean the Pacific Alliance and Mercosur. The only thing I would say is that I think what you mentioned is that there's some economic rationale for, you know, to understand the incentives of Mercosur, you know, linking up with the United

States and with the rest of the -- and this I think was my point. I think there's a chance now in which the blocks have become -- if you want to call it blocks -- they've become, you know, the same weight. So there's a real chance now so that this conversation gets -- and the (inaudible) I think will accentuate that, I don't think they will play against that. And the politics could be also. I mean what's happening in Chile I think they will play the politics on that way. And this brings me to the last question, I don't think that Chile will change their direction. This is very, very established I think. There's going to be some, you know, political gestures and I think it's going to be good that there's some conversation, some dialogue with the partners. In Mercosur I don't think it's bad, but I don't think it's going to change the direction of trade policy in Chile. And one of the reasons I think will be that a lot of the focus of the current Chilean government will be on the domestic issues. So, you know, trade policy will be probably on the second run, will - probably doesn't make - will not make the headlines when difficulties comes in the last phase of the TPP negotiations. But I think it will help probably to, you know, to conduct business the same way they have done it so far.

MR. MELTZER: Look, I'll just say briefly, I mean I don't think there's much disagreement here. I think quickly on the Brazil/U.S. bit I mean absolutely there's been significant growth in trade, you know, most certainly when you look back over the 2000s. I think that the issue for Brazil is going to be, you know, once agreements on the TPP come into effect, you know, what's going to be the impact around the range of commodity and agricultural exports to countries like the United States particularly when they don't have an FTA with them. I agree with the Chile comment. I mean I think in a way, you know, Chile's policy settings I think are fairly established and I think more interestingly given their FTA with the United States, but also they've got very ambitious FTAs, you know, with Australia for instance and other countries which I think provides a

certain locking in terms of what their sort of economic structure is going to be which possibly I think has created a bit political space to make these overtures to Brazil without damaging or kind of pulling into question these kind of key economic settings.

MR. SCHOTT: Very briefly, I've learned a lot from Peter over the years about Brazil. I'm going to try to reciprocate. I don't -- U.S./Brazil trade has increased but it hasn't increased very much compared to what it should be doing. U.S./Brazil trade has grossly underperformed for a long time and it's not just the geography, there's a lot of restrictions in the way, so there's a great opportunity if we actually work together to have a very substantial expansion of trade. Second point, I think TPP is driving the integration of the Pacific Alliance countries because those countries are -- several of the countries are engaged in TPP and TPP obligations will force changes in policy which will reinforce the integration among the Pacific Alliance countries. The challenge there is that some of the countries are not the TPP and are going to have to sort of move on TPP obligations without getting the benefits which is why I suggested expanding membership. I'm not an expert on Brazilian elections, Peter knows much more than I on that, but I don't believe these issues will have a great impact on the election. I think it's going to -- the election will have a great impact on these issues going forward not the other way around. And I agree with Toni on -- I'm sure that Chile is really invested in global integration and deepening its ties, trade and investment across the Pacific. And while there will be some tweaking of particular positions in the TPP and elsewhere, particularly on intellectual property issues and the end game negotiations of the TPP I don't there will be any significant change in Chilean policy.

MR. TRINKUNAS: Just take moderator's privilege and jump in and just comment here that I agree that on the one hand Brazil is postponing a number of decisions because of the elections coming up but I don't think it's really postponing any

fundamental decisions about its trade orientation. They're still committed to Mercosur and what they really need to figure out is how they move Mercosur forward into some sort of relationship with the European Union over the objections of Argentina largely, is at least the Brazilian interpretation of what's going on. But they'll probably have to wait until after the elections to really make that move. But it's still fundamentally a commitment to their present institutional arrangements.

And on the Chile question and related Pacific Alliance, I think the sense I got from President Bachelet's team is really what they object to is the ideological overtones of the Pacific Alliance had acquired rather than the economic dimension. It was the sense that Pacific Alliance were the good guys and, you know, ALBA or Mercosur were the bad guys in some way. That kind of vision that some of the more conservative former presidents now that have left office might have occasionally raised, and I think people will want to, as they say in Chile, *bajar el tono*, you know, just lower the ideological tone of the debate and focus it much more on the economic dimensions, what's going on.

But turning now, I think there was a question over here. And we'll take another round of questions.

AMBASSADOR NELSON: Thank you. I thank you very much for the presentation. Dave Nelson, with GE. One of the positive developments on both sides of the Andes over the last decade has been the commitment to macroeconomic stability, by and large. And it's this macroeconomic stability, fiscal responsibility with social inclusion, with remarkable reduction in poverty, tremendous achievement. Some would argue it was driven largely by a commodity boom. That seems to have played out. So the question is going forward, looking at the link between trade policy and macroeconomic stability are the countries that are committed to the free side, the free trade angle, are the

Pacific Alliance countries more likely to be able to survive this kind of changing trade environment? Are we going to see a divergence on both sides, not only in trade policy but on the macroeconomic stability as well?

MR. TRINKUNAS: Thank you. Okay. I think let's go in the back and then to this -- in front, and --

MR. PALMER: Hi. Thanks. Doug Palmer with POLITICO. I mean, Jeff, you talked about expanding the membership of TPP I guess to bring in the Pacific Alliance members, that's what I thought perhaps you were suggesting?

MR. SCHOTT: APEC.

MR. PALMER: Oh, expanding APEC?

MR. SCHOTT: Membership.

MR. PALMER: Right. Which would then make those Pacific Alliance members eligible for TPP.

MR. SCHOTT: Right.

MR. PALMER: Okay. Well, I guess I just had a question sort of on the opposite side. I mean is there any -- assuming that didn't happen is there any reason for the U.S. to seek to become a member of the Pacific Alliance? I mean do you know if there's any discussion in that regard? And then secondly I had a conversation with some folks at the U.S. Chamber and they said that they were working with the main Brazilian industry group down there and they were going to commission a study on a bilateral free trade agreement. They're calling it an EPA I guess, an economic partnership agreement. Anyway, just for anybody, does that seem realistic at this point?

MR. TRINKUNAS: Okay. I think we have one more question here in front.

MR. LONG: Hi, Tom Long with American University. Part of the reason

that NAFTA was so successful was precisely because of the level of value chain integration that occurred. That doesn't seem to have been as salient or as prominent in some of the other FTAs between the United States and Latin American countries; correct me if I'm wrong on that. Is that really just to do with geography, and if so why should we expect more value chain integration in the TPP and the other agreements that we're seeing now, as it pertains to Latin America in particular? Thank you.

MR. TRINKUNAS: Okay. Great. Thank you. All right. I think another excellent set of questions. Jeff, do you want to -- well, maybe we'll go in reverse order this time and start with you or?

MR. SCHOTT: Okay. I won't address everything. Ambassador Nelson knows Latin America very well but he's asking a question for the Inter-American Development Bank (laughter) so I'll punt on that one even though I could give an answer.

Tom's question is a very good one. He's done a lot of excellent work with the late Bob Pastor in the need of deepening integration. So the lessons of North America also apply to the lessons of South America and there I'd say one of the things that Bob Pastor talked about a lot was improving infrastructure investment. And that would be a crucial step in opening up new opportunities for Latin American economic integration, the physical infrastructure. Some of it has occurred linking electricity grids, gas pipelines and the like. Much more could be done and that would have a very strong impact. Finally Doug Palmer's questions on should U.S. join the Pacific Alliance, well the first step is Ambassador Froman has noted the U.S. interest in the Pacific Alliance and the support for the Pacific Alliance. That's a little different than saying we want in and we want to run the show. And indeed if he had taken that second step, you know, he may have scared a lot of people off, and perhaps rightly. So I think U.S. encouragement for progress on integration among the countries in the Pacific Alliance, U.S. support for that

group is very important and probably the way we should go right now.

In terms of the chamber, I think one of the things they were talking about was interest in deepening U.S./Brazil economic ties and seeing how maybe now a traditional free trade agreement but how -- where there are challenges and where there are opportunities for the U.S. and Brazil to work more closely together to achieve the type of potential expansion of trade and investment that I was talking about before and answering to Peter. That's very important and indeed my comments today may have seemed very negative on Brazil but it's only because I see such great potential upside that is not being taken advantage of. And so for that reason my colleagues at the Peterson Institute are probably going to do that study.

MR. MELTZER: Look, just briefly on the commodity cycle, macroeconomic stability obviously except for Argentina but, you know, it's an issue I think that plays out for a range of countries in Latin America because you've had Brazil but you've also had Chile and you've had Peru who had, you know, benefitted significantly from the commodity cycle. And I think, you know, to the extent that -- you know, I mean I'm not even too sure I -- in the premise of the unwinding of the cycle I think is still in question. I mean, you know, the highs have come off but I think potentially there's still a long way to run. I mean considering the organization that still has to take place in China and increasingly also in India and down the track. But that said, you know, in a way -- and the, you know, the macroeconomic stability pace I think going forward is going to be really the key driver of the extent that they do manage the transition. I mean where and how the boom period is being spent and used, I mean to the extent that the policies have relied on, you know, the total (inaudible) flow which is then being used for inefficient government spending or programs or hasn't been used to actually address key costs like infrastructure, bottle necks, the Brazil costs that people talk about means that going yeah,

managing the cycle coming off is going to be significantly harder but I think economically -- and I think also will have its own political ramifications whereas the economies on -- such as -- if you take Chile for example which have been, you know, more open on a trade front, certainly I think are going to be in a better place going forward to maintaining that and to benefitting still from the next opportunities. I don't -- yeah, I think I'll just leave it at that.

MR. ESTEVADEORDAL: Yeah. Maybe a lot -- something -- I don't have much to add on the macro question. I think the reversal of trade, the trade tide that we had definitely will pose a challenge for the macroeconomic stability on some and I think your answer is to -- it becomes even more urgent push forward with these trade deals. That's I think the only thing I will add to the issue.

But on the productive integration or kind of the value chain integration which is a very interesting question because, you know, the Pacific Alliance is -- this is one of the goals that the Pacific Alliance has. It's really a long term goal. Today's integration of trade in the Pacific Alliance is extremely small. It's only four or five percent. It's extremely, extremely very little trade going on between these two at issue. From here to actually have, you know, really the type of productive integration that you have between the United States and Mexico is far from the road. But the focus is what Jeff just said, the key to the focus is look at where are really the bottle necks for these things happening, what are the conditions that you have to have for that type of platforms and infrastructural logistics. Huge -- these is a huge bottle neck in most of the region and there are regulatory issues. When we talk about regulatory issues here we talk about the issues that will allow firms to coordinate better their operations. That this means harmonization (inaudible) standards, means contractual issues about, you know, firms operating in different parts of the country. So it's a completely different agenda in terms



of what we're used to in terms of trade negotiations. And the Alliance has put this in terms of the -- it's in the next steps of negotiations and I think it's in the right direction in this sense.

MR. TRINKUNAS: Thank you. No, I think the infrastructure question remains an open one whether Pacific Alliance will be able to pull off because if we think back to the roots of organizations that UNASUR who are in the infrastructure integration for South America project that former president Fernando Henrique Cardoso promoted and which 12 years later really hasn't born from fruit. So still very much on the agenda the region after 15 years.

I think we have time for maybe one or two more questions. I think there's one here in the back.

MS. PLANK-BRUMBACK: Good afternoon. Rosine Plank-Brumback from the OAS and a veteran of the FTAA negotiations and still traumatized by that. (Laughter) I was wondering whether Jeff and Toni in particular could give us an example of the type of shall we say offensive economic incentive for Brazil that would overcome its Mercosur fixation or domestic protectionist interests that might be of interest to entice it? What would be of interest specifically in the U.S. market other than continuing to watch a certain preference, improved preferences by perhaps other competitors when Brazil only benefits from GESP? And a second part would be would that kind of calculus be better in the WTO negotiations setting as opposed to a more-- primarily a hemispheric focus?

MR. TRINKUNAS: Thank you. And I think perhaps the last question over here and then we'll go back to the panel for some concluding remarks.

AMBASSADOR MUNGRA: Thank you very much for that presentation. My name is Mungra, Ambassador of the Republic of Suriname. Here I am stuck with the question what would be your advice for the many small island economies? Because of

the small scale because they are now stuck in the middle. Their hopes with regard the positive outcome of the Doha Round or WTO, obviously small economies benefit more from multilateral trade framework than bilateral. Given the fact that seems to be a very long term option. Now what will be your advice as to the repositioning of the smaller economy *vis a vis* these meager trade negotiations, the TPP and the TIPP? Thank you.

MR. TRINKUNAS: Thank you. I think they're two excellent questions on which to end this panel. If any of you'd like to jump in I think --

MR. ESTEVADEORDAL: Maybe just very, very, very briefly on Rosine's question. I'll go back to what Jeff said a while ago. More than just look at the specific offensive interest and specific sectors and specific problems, this is about productivity in the case of Brazil. I mean you really have to change your cost structure, your productivity, and for that you need to change the, you know, your service sectors and so it's not about, you know, what you gain in terms of your market access in economies like the United States but, you know, what benefits you will gain in terms of productivity. And so I think this is the kind of the bottom line here for Brazil.

And kind of very small answer to something that we didn't talk of here which is the small economies, and in particular the Caribbean. Here more than -- for me the Caribbean, the challenge is more than thinking about the TPP or TTIP, it's about thinking about the region. This is a region has not been yet connected to our own region, to South America. And I think is probably kind of the first homework that the group of countries like the Caribbean have to do, you know, beyond thinking about the European or the U.S. Reconnect with your own region, with Brazil and with the weak economies of South America. That I think is one of the missing links that we have in the region.

MR. MELTZER: Just briefly, just on the Ambassador's question, I mean I think despite the -- I mean think the multilateral round, you know, despite difficulties with

it should clearly, you know, still be a focus but think the fact is that we -- it's always important to keep in mind I think that when one thinks about trade liberalization, you know, ultimately the benefits are to the country liberalizing. And in many respects, you know, trade liberalization is about a driver of domestic economic reform. So I think, you know, the key here -- and I think picking up on this point about regionalism is what needs to be done domestically to drive competitiveness where the opportunities -- and that's both I think strategic assessment about, you know, what are the country's opportunities, what needs to be done, what can be done regionally and built up there. And I think that in itself I think could help then inform a larger question about how you then integrate globally and whether it is through a particular trade negotiation here or there, what those partners are, but getting it right domestically I think is the key starting point.

MR. SCHOTT: Well, I agree with everything that's just been said by both Toni and Josh. Let me just reinforce that on both the questions. For Rosine, what Brazil can do in that context, don't think it about in the bilateral mercantilist merchandise trade focus, but Brazilian participation in the plurilaterals will encourage the type of domestic reforms that are needed and that will -- there the United States can work with Brazil even though it's not a bilateral context. So that's one thing.

With regard to the small economies this goes -- takes me back to a paper that Barbara Kotschwar and I wrote during the FTAA days about small and vulnerable economies, and as you said you're still vulnerable. So what Toni said is absolutely right, integrating in the region. But it also means continuing what these countries restarted in Bali and that is constructive engagement in the multilateral negotiations. For too long in the Doha Round small economies were scared of the competition and scared of additional adjustment from reform and therefore was part of the foot dragging element among WTO membership. In Bali we saw a much bigger -- a

much -- a very important change in moving towards measured but constructive reform that allowed the trade facilitation agreement to be passed despite the objections of a few major foot draggers. And I think continuing that way and moving towards a revival of broader multilateral negotiations will also help. That has a slightly longer time horizon than trying to move immediately on deepening integration in the neighborhood. Thank you.

MR. TRINKUNAS: Well, I'd like to thank all three of our panelists, Toni, Josh, Jeff, for an extremely interesting and lively panel, and to thank our audience for joining us today. I'd also like to thank my colleague, Ernesto Talvi, a Global fellow for helping to organize I think the second of the two joint events that the Latin American Initiatives at Brookings have had and to our staff members who of course did all the hard working putting this together. So thank you all. (Applause).

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