

THE BROOKINGS INSTITUTION  
IS LATIN AMERICA PREPARED TO  
RESIST THE TURBULENT GLOBAL ECONOMY?

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

MR. IRAGORRI: (in progress) Good morning everyone. Thank you for being here, first of all. I am Juan Carlos Iragorri. I'm the director of the Club de Prensa program on the NTN channel, and I'd like to thank the Brookings Institution, among other things this is the first time that the Brookings Institution, which is considered so prestigious by the University of Pennsylvania, has a forum in Spanish. And I'm very thankful and grateful, because it's not just an initiative of Brookings, but also of CERES, who is directed by Ernesto Talvi. And if it wasn't for Julia Ruiz, our colleague here, this would not have been possible. [interruption] all the guests for being here. I have Augusto de la Torre who is the chief economist for Latin American and the Caribbean, The World Bank, Alejandro Werner, deputy director of the Western Hemisphere department of the IMF. Thank you. We have Jose Juan Ruiz. He is the Chief Economist of the IDB. Ernesto Talvi, the director of Brookings-CERES. And as I said, we have Muni Jensen with us.

The title of this forum is "Is Latin America Prepared to Resist the Turbulent Global Economy," the world economy. I'd like to give the floor to Ernesto Talvi so he can answer this question. Ernesto?

MR. TALVI: Thank you very much, Juan Carlos, for that introduction. Well, in 2012, when the crisis was at its peak in Europe, Latin America also experienced a decline, China was cooling off, commodities were going back to the prices of 2004. The interest rates were going up. Many economies were cooling off and in a significant way.

So, Argentina and Venezuela are going to come up in this conversation because they are not typical. We are also going to talk about Brazil, Chili, Columbia, Peru, and Mexico.

We can say that in similar circumstances in the past, we would already be seeing reserves fleeing, debt crisis, crisis with regard to currency, perhaps kutatas, so much has changed since then, so with the international liquidity levels that we have with the capitalized private banking and stable political systems, we think the problems will come through other traditional kinds of mechanisms on the monetary side, for example.

In this regard, the governments are going to have to balance and adjust as they can to the new situation and take measures. This means in monetary terms, they are going to see a depreciation of currency in order to be competitive and also to deal with any recession pressures, and also maintain the stability of prices.

Those that have low growth rates can afford not to raise interest rates or even lower them, and also allow inflation to go above targets without committing or without compromising their credibility. However, Brazil cannot do that. They don't have that luxury. They are going to have to raise interest rates to try to keep their credit rating high but also they need to deal with the recessive pressures.

Now, we have other challenges to deal with. Governments need to balance the adjustments to new circumstances and maintain credibility, creditworthiness, and also the capacity to pay the debt. Those that are beginning this process with low deficits and limited debt, like Peru, they have a great deal of leeway to over time have fiscal consolidation without making abrupt kinds of adjustments, which would bring pressure of recession, but Brazil, that has high deficit, high debt, is going to be obliged to make immediate adjustments in order to shore up its credibility and also its public finance creditworthiness.

We have these external circumstances, so all countries are going to have to go through surgery, more or less, but we are going to have to go through surgery. We need a surgeon that can be effective and can be precise.

The issue is what we are seeing with this cooling off and a stagnation of salaries and increase in unemployment is the popularity of presidents in exercise and

popularity of governments have declined in almost all Latin American countries.

The good news is the following: in most of the countries, this has not translated into a lack of governance or paralysis. In Brazil, unfortunately, the largest country in the region, the decline in popularity of the president and the approval ratings of the government has gone hand in hand with the Petraeus scandal, and we do have a paralysis of governance, and that means there is no surgeon heading this up in the moment when they need very deep measures.

If we are going to sum it up, those from the TPP are going to have to go through painful adjustments but not traumatic in our opinion. Brazil is in a very complex process without leeway with regard to fiscal and monetary policy, and a great deal of political fragility, a lack of investment, and in my opinion, this could lead very quickly or in some months to having Brazil go to the IMF in order to have an orderly adjustment, although they have a high volume of reserves still, but we can debate this later.

We need to talk about the nuances with regard to the multilateral organizations, the scenario that I see is the IMF is going to be going around our region with some programs, which are going to be needed in some countries, and the development banks, I think, are going to play a very key role to be able to facilitate what we like to call "intelligent austerity," in those countries that have solid macroeconomic fundamentals, but are going to have difficulty in accessing credit.

The IDB and the World Bank can play an important role. They have access to resources which are available in the world and they can take them to Latin America and the emerging countries to finance profitable projects, both economically and socially profitable.

It is interesting, and I'd like to conclude by summing up what I said. This world seems to be a world of more traditional problems. The issues are on the fiscal and monetary side, unemployment, some institutional political challenges, of course, and also the multilateral side, the IMF playing its traditional role of instituting programs with

countries that need it, supervising macroeconomic fundamentals in those countries that don't need financing, and the development banks financing projects, and also looking at the nuances.

MS. JENSEN : This is for Augusto. You said it is divided between those who are let's say in the U.S. group and in the China group. Do you think all countries will be able to meet these challenges?

MR. DE LA TORRE: Thank you very much for allowing me to be here and to speak with my friends and colleagues.

As Ernesto said, we have been adjusting two external factors for four years, and these external conditions have to do with what is happening in China. If we had been here 15 years ago, we wouldn't be talking about China because what was happening in China had no importance for Latin American economies, and the world has changed, and now China is very important, especially for South America.

That means that the current external circumstances, well, South America has to absorb an external shock that is greater than in North America. Mexico, Central America, the Caribbean are following the U.S. recovery, and we have South America that is going through an experience where they are actually experiencing this decline, so we have this bifurcation in the world, and the world is two groups, the U.S. helping to spur growth through consumption, and then we have China.

I think the biggest risk is that these two cycles, the one in the U.S. and China go off path, and China does worse than we think, and that could bring the U.S. down and the rest of the world down if there was deceleration. We hope that doesn't happen but that's what concerns me.

Now, the region is adapting to these new conditions, these new external conditions, and what I'd like to emphasize with regard to what Ernesto has said, it's different to do macro economy in Latin America than in the U.S. In the U.S., every few years, there is a large crisis, but during the other years, the U.S. grows two percent year

over year, so you just need to soften the cycles so there is stable growth.

But in Latin America, we have to do that, and what is even more complicated, the trends change, so now we are facing a changing trend. The countercyclical policies that we have available is limited.

We need to have a new balance in the macro economy that's less favorable and that is difficult, and that is a task that is much more complicated than just managing the cycles.

We are going in a transition phase. Of course, this is much more difficult than we thought. It is not causing financial crisis like we saw in the 1990s or the 1980s. It has to do with difficulties with regard to labor markets and price adjustments, so these are new processes for the region. The region is learning through this process, through variables and spheres of the macroeconomic policy that are quite different from what they faced during times of financial or banking crises.

In this process, there are some countries that are suffering more than others, depending on the magnitude of the adjustment, also the availability of instruments, in particular, countries that can have flexible exchange rates, and they have an advantage versus, for example, Ecuador, that cannot change its exchange rate to absorb this.

In my opinion, the adjustment process to external conditions has not finished. We have not reached bottom. When you look at the macro situation of Latin America, we believe that the only country that has touched bottom is Chile. However, there are more complicated policy questions in Chile which is stopping it from going back up, but I think there is a lot to be done and a lot is going to happen.

I think this year we have had almost zero growth, and there is a lot to absorb. This is true of the labor market. In the past, in Latin America, it always was accompanied by great inflation, usually if there were crises, there was great inflation. This ate away at salaries, real salaries, and we are not in the Latin America of the past,

inflation is low, and we are not so worried about that.

We have a more complicated labor market, and we are seeing what is happening. Employment is going down, the quality of employment is changing. The workers that were working in large companies are going into smaller companies with less salary. Those who had low salaries are going into their own businesses. There is an adjustment process in the growth of salaries.

I think that is a very important question with regard to social policy, whether this adjustment of the labor market will be regressive, and remember, Latin America in the last 15 years was one of the few regions in the world where we had a reduction in inequality of income. We are happy about that.

Now, we are at the low point in the cycle. The question is whether there will be greater inequality in income. We think yes, but it's going to be different. In the labor market, there is more unemployment. There is an increase in unemployment, as I said, and then we see young people with the least amount of education, they are the ones that are going into the labor markets and affecting the income of poorer families.

We think part of the social tensions will come from trying to absorb these labor market adjustments, and that means we might lose out on some of the gains as far as income equality is concerned.

MR. IRAGORRI: I have a question for Mr. Werner of the IMF. What you call these countercyclical policies, before we came in, you said you wanted me to ask you about these kinds of policies, and I told you not everyone here is an economist, and perhaps in simple words or simple terms, you can explain this to us.

MR. WERNER: The interesting thing is what we are experiencing in the global economy is quite different from what we saw in 2008/2009. With the global financial crisis, everyone implemented what we called "countercyclical policies," policies designed to foster growth when they were facing this shock.

In Latin America, that meant greater public spending, less tax income,

and also lower interest rates, and depreciation of currencies.

Now, the region is facing another kind of shock. It's an ongoing shock. The exchange rates, the prices of commodities are lower, and this is something that is sustained over time. This means that the region should not necessarily implement countercyclical policies, because there is not enough leeway to do so.

On the tax side, the fiscal side, the fiscal deficit, it is a weaker position than before. Public debt is higher as compared to 2008, and the level of public spending is higher, and it is more permanent, and those that export raw materials or commodities have less tax base or fiscal income, so there is less leeway for fiscal adjustments to spur growth.

With regard to monetary and exchange rate policies, well, Chile, Mexico, Brazil, their currency has depreciated on the exchange rate markets. That is good. In Chile and Columbia, for example, the depreciation of the currency has an effect on inflation. They need to raise interest rates to actually control inflation or expectations of inflation.

The most important point is that this is an ongoing shock. So, we have the potential growth mid-term and it is less than some years ago, so we have to emphasize the fact that we need structural reforms to diversify exports and help their economies.

Many reforms could take place. For example, the rule of law, intellectual property rights, more competition in markets. The private sector needs to look for new sources of growth. The region is still not open really, very much, to international trade. Perhaps we need more international cooperation to have trade amongst Latin American countries.

I think the important point is this is a more permanent situation globally and we need to structure reforms in order to foster growth in the medium term.

MR. IRAGORRI: Juan Ruiz, just a few years ago, Luis Alberto Moreno,

the President of the IDB, published a book on The Decade of Latin America. There was a lot of excitement about this. Things have changed. Some of the statistics published in early October in Lima, after their meetings, where they talked about the region's economy this week, they estimated that Venezuela will grow by 10 percent, Brazil by three percent, Ecuador, 0.6 percent, and the economies of Asia Pacific are better, Mexico, Columbia, Peru, and Chili.

My question to you is are there reasons then to be pessimistic or do you think we can still be slightly positive?

MR. RUIZ: Thank you very much. Thank you, Ernesto and NTN24 for inviting me.

I think one of the advantages of being the last one to speak is that I can simply confirm the ideas that my president had about this. We have not heard the term, the one that I thought was going to guide the conversation, which is the "lost opportunity" in Latin America. I don't think that is the case.

What we are talking about here is something quite different. What we are talking about is how Latin America is once again asking the systematic question that it asks all the time, how it is going to address a development, taking into account how the region has changed because of the opportunities that Latin America did take advantage of in this past decade.

I think the best way to look at the opportunities that were made the most of is to look at three different figures, put them into like a triangle, as it were. We have zero percent and then we have 66 percent and we have 17 percent. Those three figures correspond to different vertices, so that is zero percent growth, 66 percent, the number of Latin Americans who themselves state they are part of the middle class, and 17 percent is the number of countries in the region that in their constitutions have ongoing re-elections for president.

These have a lot to do with each other. The opportunities that were

taken advantage of in Latin America are in the social and political pillar. Thirty years ago -- Augusto was talking about China 15 years ago, but at 30 years ago, somebody had asked what the political outlook for Latin America would be three decades later. It would have been very unlikely that they would say this is a continent that 30 years after the democratic wave, the third democratic wave in the world, would be consolidated.

The answer that Latin Americans have said is they might be more or less pleased and there are certain weaknesses still in their economies but democracy has been consolidated effectively in the region. The citizens of Latin America still have unfinished business. That is we have democracy but we're not modern states that are able to offer the public goods and services that will help to make the leap towards development and the institutional capacity necessary to take this on.

The opportunity that was taken advantage of was democracy. We could say the unfinished business is the modern state and how to overhaul the system of elites and to ensure that institutions are able to extend democracy to the majority of citizens.

On the other side, we have 66 percent of society, 66 percent consider themselves to be part of the middle class. This is the outcome of 15 straight years of sustained growth. This 66 percent has a great deal to do with how we are going to face the future based on something Augusto brought up.

Much of the methodology as to how this middle class came to be has to do with the idea of prices and commodities and the profits there from have been spread amongst the population, and this has had a major impact towards improving conditions. The technology transfer has to do with one percent of GDP.

The truth is the middle classes -- the World Bank did an exhaustive study about this -- this growth of the middle class comes from job creation, and this is what has led to the creation of the middle class and improvements in reducing inequality, income inequality, because wages of unskilled labor have jumped higher than those of skilled labor.

Latin America has something to thank the state for but a great deal of the reason behind the fact that they are part of the middle class but it's vulnerable is because the labor market has grown.

What is happening in these two different pillars, these two bases of the triangle, depends on what happens at the point of the triangle. It has to do with the political system. This is what Alejandro from the IMF and Ernesto were saying, there is the possibility of implementing countercyclical measures, can the government do that, and how are we going to adjust to new conditions.

This interaction is what is going to define the future in Latin America. Without growth, volatility is going to be much greater. Growth, we know is medium and long term reforms, adjustments, as Ernesto was talking about, and the ability to have integration processes underway in the region.

Many experiments have been done trying to combine political, social, and economic aspects. In the 1980s, they decided to leave the middle class impact on society to one side, and the major macroeconomic balances had to be struck, and they had to legitimize these governments, and then looking at equity.

This is the history of Latin America in the 1980s and 1990s. I don't think that is possible nowadays. I don't think we can talk about readjusting the region's economies at the cost of moving backwards in processes to improve income and wealth distribution and have inclusive economies.

Equity is no longer under discussion in Latin America alone. It is something global, and you can't implement policies the way they were implemented in the 1980s and 1990s. This is not going to go anywhere socially or politically because society is going to have something to say about it.

As we have seen in some examples, forget about the macro economy, I'm just going to look at social policies, and I'll just forget about balances, and I'll just keep kicking the can down the road as long as I can. Sure, you can do that for a little time, but

the macro indicators are going to impose the need to pay attention to them.

What we are discussing here is the capacity governments have to delay adjustments. Something important to think about here is if Latin America has learned anything from the past, it is the capacity to dilute these adjustments, and that it depends on the institutions that have been created. It is not a coincidence that countries with strong currencies don't have inflationary pressures, and these countries have good reputations and who have anchored the expectations to this, so it is not a coincidence that these countries that are talking about fiscal adjustments and they can do them over three or four years, it is not a coincidence that this has not led to fiscal runs or exchange runs that we have seen in the past. There are now fiscal rules, transparent, and well known processes that are known to the public.

What are the constraints to continue to make intelligent adjustments? The major item that is pending in the region in terms of growth development is long term reforms and building of institutional capacity that will allow for intelligent and more focused adjustments.

Looking at the discussions on government spending and institutions to be able to respond to shocks is going to be far more important than the actual size of the shock or the mistrust that investors have. That's the major discussion on the table.

I think the region has made strides in that sense, so I'm not pessimistic.

MS. JENSEN.: I wanted to talk about the 66 percent that Jose Juan talked about, the middle class. It has to do with jobs and their lack of satisfaction. Is this something good for democracy, that they are questioning the sitting governments, or is this something that is a threat in that populous leaders might come to the floor, this has happened in Europe, and they don't have much political weight, but they are saying a lot.

MR. TALVI: This is certainly a challenge, Muni. It is a very significant challenge for the region, as Jose Juan was saying, the adjustments and how they are prioritizing job creation, looking at young people who have low levels of education, but

looking to create jobs for them.

Middle classes are being threatened by recessive processes and adjustments in the social processes.

I think we have to dissuade this idea of having populous proposals, and the way to do this is governments and the established parties will have to internalize these policies and ensure they are taking into account in their adjustment policies the need to expand and make opportunities more equal. This has to do with education and job training.

If those things are not done and no resources are devoted to that, I believe unfortunately that there will be unrest in society and opposition to an entire process of adjustments, and it can undermine some of the achievements that were so hard-won.

MR. IRAGORRI: I wanted to ask Mr. de la Torre and Jose Juan as well, what Latin American countries are doing well economically and which are not. Looking at the lack of satisfaction of middle classes with their governments and Latino barometer, they were saying in 2009, approval ratings of sitting governments, of 17 governments, was 60 percent, and right now, it is 47 percent.

This is a very significant drop. It gives the impression that Latin American citizens are bored with the current governments, current administrations.

What countries are doing well?

MR. DE LA TORRE: I would like to talk about democracy before I get to your question, because I think it is key. It is true as Jose Juan was saying, that the region is a region where democracy is more established now, but there are some serious challenges in terms of democracy, and I'd like to share what I think.

There are a group of countries in the region where the quality of democracy has deteriorated. The checks and balances have been done away with for all intents and purposes. The balance of power has been weakened. Just the fact that they

hold elections doesn't mean there is operational representative democracy. This is very significant.

There are three or four countries in the region whose democracies have deteriorated. There are some countries with stronger democracies, and they have to have political debate, which is precisely what creates this lack of satisfaction.

If we look at Chile or Brazil, democracy there has to process like a new social arrangement wherein there has to be more credible institutions, the relationship between the state and the market is discussed in a significant way there, and this is a test of the democracy, entering into discussions and reaching new agreements.

I think democracy is going to be rather hard hit. For social progress to continue, there must be jobs, but the jobs into the future cannot be based on increased consumption as it was in the last decade. In the last decade, growth was based on high levels of consumption. Now it has to be job creation with more moderate consumption that must be based on greater investments, more exports, and investment. It is not going to be easy to create jobs with this new economic dynamic.

Think about now. There are countries that have devaluated a great deal in recent years, but their exports aren't necessarily growing, and if the exports don't grow, where are the jobs going to come from? We have a restricted capacity to create new exporting businesses.

Our economies need to have a more competitive exchange rate and it has to be favorable. Things aren't going so great in the world right now. They are not sending enough products. This is extremely important.

The last point on democracy that is of great concern to me is that the region has lost its ability to do self-monitoring in terms of democracy. There are situations where we have seen a deterioration of democracy. Let's think about Venezuela. The U.S. government -- has anyone in the U.S. government criticized Venezuela? No. The presidents of the region have remained silent, so there is a silence

that does not help to strengthen democratic institutions in the region.

MR. WERNER: I'll be a little bit more specific than Augusto was. He was specific at the end of his remarks.

I think countries that are doing well economically are Mexico, Chile, Columbia, and Peru. I think the challenges are slightly different. Argentina is very complicated nowadays, with the upcoming elections.

Looking at the speed of the adjustments that are going to have to be implemented in 2016, it's not a question of whether adjustments need to be made, it is when.

Brazil is complicated but the Petrobras scandal has its positives and negatives. What is good is that they are tackling a major corruption scandal head-on, and this means that 10 years from now, it is going to be a much stronger country.

Venezuela obviously is a very complicated situation. There is no good management there in any way, shape or form. Ecuador also has problems because of its dollarization. The government recognizes the need to implement adjustments but it has no option to devalue its currency.

MR. RUIZ: Having heard what Augusto was saying, I was first thinking about Latin America, but then the chip switched over to Europe. I thought okay, let me put myself in Europe and consider democracy. They have the same concerns there, the same concerns that Augusto was noting in Latin America does exist in European countries as well.

That is where you have these values of the European countries, but now we are seeing what is happening with the migration crisis, and who is raising their hand to help. At the end of the day, Augusto's points, which are extremely important, bring to bear what I was saying at the beginning, that Latin American democracy is not unique any more. It faces the same problems that any democracy faces, which is what your conclusion was at the end, and at the end of the day, this is a complicated world.

We don't know how to grow. We have lost sight a little bit of the context that Augusto brought up in China, where there is stagnation, but it doesn't mean there is no ability for growth.

I remember when in Latin America, it wasn't so different from the rest of the world. We were always the outliers in the global economy, and we were simply showcasing what was happening.

Now, we face the same problems that other countries do, and this is one of the results of globalization and all governments in the world are worried about the technology revolution, for the disabled, and all governments of the world are worried about how cohesive their societies are and how they are growing, even though it's true there are weaknesses in checks and balances in countries.

We are not so different and we were able to make the most of the past 15 years. Not to mention some hopeful situations, but it does seem that some countries are moving towards more democratic systems and more friendly to freedoms, like as the case of Cuba and the possible repercussions that will have on the region.

The second item that is important, who is doing well, who is doing poorly? If we look at this exclusively from the standpoint of policy outcomes, I don't think that's the right way to proceed. What countries have truly put the medium term on their agendas and institution building and strengthening on their agendas.

These countries continue to rely on commodities where external cycles explain 80 percent of our economic cycles. This has been the truth for the past 100 years. How are we going to tackle these challenges so we are consistently on top of the trend? We have to have more diversified economies and institutions that are better able to absorb or help in the case of shocks.

That is the medium and long term in the region with all difficulties and all the gradual movement. I do see progress, progress in these countries that we have noted. It's not a coincidence that Peru, Columbia, Chile, and Mexico have central banks

with very good reputations. They have fiscal rules in place. They have checks and balances and economic governance.

Obviously, there is much more to be done, but with this institutional building, I think it might help us to at least put to one side the enormous volatility that is sometimes a result of policies implemented but it is because we are so vulnerable to the international economic conditions.

SPEAKER: Which countries make you lose sleep, which make you feel good? Which economies make us lose sleep?

MR. TALVI: It has a lot to do with the question. Somebody said and I don't remember who, that we have forgotten a few things in terms of development, but there is not one single experience in the history of development, not a single one, that has not resulted from very significant entrance or penetration into the international economy, more foreign directed investment, more trade, et cetera. There has been great prosperity in the world as a result of trade, and the freest and broadest trade possible.

What I am seeing here are very important things based on what we are seeing in the new geographies of international negotiations. We have the TPP, which is basically the U.S., and Asia, Japan, and some other smaller players, and then the Transatlantic Trade and Investment Partnership between the United States and Europe.

That is the next generation of trade agreements that go beyond the World Trade Organization and designed to address issues that are not easily resolved among 66 countries. For example, government procurement, intellectual property, leveling the playing field with in countries so that other countries can participate.

These are very complex issues that will be done amongst a few countries and then the rest of us will join in. The Pacific Alliance, they themselves have this 2.0 TPP, and it has to do with what's happening in the global economy. Three of them are already part of the TPP.

I see these countries working very aggressively to be part of the 21st

Century's integration. If I'm going to be a pessimist and say well, what is happening on the Atlantic side, as you were saying before the meeting when we were talking about Brazil, Argentina, Venezuela.

Here is where I see another light at the end of the tunnel, even though there are so many problems, and that is private sector in Brazil, even in light of what I've said right now, has realized that the path they are taking is going to more absolute and total isolation, and therefore, old protectionist measures and reflexes don't work, and the private sector in Brazil is fighting for greater international penetration.

I think the political dynamic is going to catch up with the needs of the private sector, and then in the next 25 years, we are going to see a much more aggressively integrated Latin America in the world, and this is going to help the continent to grow more.

MS. JENSEN: Well, what about the productive sector, are they going to be able to build this free trade road, as it were, when they create these structures, these continental highways, and they continue to export the same products to the same exact markets, so there needs to be parallel efforts by the governments to have a diversity in exports because that's what will sustain growth.

MR. RUIZ: Yes, to a certain degree what you have said, we have to look at the figures. If you look at the exports in countries now and the structure of exports compared to 25 years ago, even if it is just in the case of China, it has changed, either the markets or the products.

The export diversification should be greater? That is likely true. That's likely where we could right now in times of low growth start to think about some public policy actions that could be taken or reject them, because it is not suitable to talk about public policies for economic adjustment. They don't enjoy consensus, or because there are external factors like the exchange rates that have an impact on this.

Likely right now what we should do is look for growth within the region

and because world economic growth is lower right now, look at the reactions in the real exchange rates, there are businesses that you couldn't have had in 2009, 2010, 2011, because of the competitiveness of the manufacturing sector was affected by real exchange rates.

This is likely where we are going to see the most possibility for short term growth, bringing together these two things. First, greater regional integration and secondly, productive activities that are a little bit more diversified than what we have seen in the past 20 years, when we are talking about the dependence on commodities.

Now, commodity prices are low, so this is the time when there is probably the likelihood that you could have public policies implemented that in the past had no chance.

Well, we could think about Brazil which is traditionally a protectionist country and they produce airplanes, and Columbia continues to produce coffee. There is the aeronautics industry in Mexico, which actually has a turnover of 30 percent more than Brazil. I don't think Columbia has failed because it doesn't produce planes, rather [interruption].

MR. TALVI: If we look at the sophistication of planes, it is impressive because of their size, but if you look at the degree of sophistication, it is not even seven or eight percent of the products that the country produces in exports, and require sophistication for production.

You look at countries that have economies based on commodities, New Zealand, Australia, where the agricultural base is very large, where they produce milk, meat, which is not very sophisticated, but they have gone up the chain, let's say. They now export 60-65 percent of their package, and it's very sophisticated.

So, it is not some activities are going to substitute others, and the development process is that you continue to do what you have always done but you broaden things so you can become more sophisticated.

What we need are two things, institutions, and this also requires a labor force that is highly qualified, highly skilled, and we don't have that in Latin America. If we had those two things, we had also integration in markets that would allow us to take advantage of them, we could well end up having a very good educational system. We could avoid ending up like Cuba that has a well-educated labor force but everyone is under-employed.

MR. IRAGORRI: I would like to let Augusto comment.

MR. DE LA TORRE: I like the fact that we are talking about international trade integration because it seems to me this is an area that has not been exploited in the region to spur growth, and this is complicated as we have said.

There are different agendas that need to be implemented. In my opinion, I think we need to make a psychological jump. In the past, Latin America had integration on one side that was regional and the other that was international. We had steps to have different trade agreements within the region thinking that was a better bet than having international integration, but the Chileans did go for international integration, but it's not a choice here, not one or the other.

When we look at Southeast Asia, we have integration in the region and internationally, and with more regional integration, they have more effective exports to be integrated in the world, so this is a virtuous cycle to have both kinds of integration.

In Latin America, we have not known how to take advantage of this cycle that is virtuous. We need both kinds of integration, and we could grow much more if we could integrate in the world and amongst ourselves, and amongst ourselves, the more we integrate, the more we integrate in the world.

MR. IRAGORRI: We have some minutes for a few questions from our audience. Maybe three questions. A question, please, not a comment or editorial opinion.

QUESTIONER: For the IMF representative, you mentioned that the IMF

can go back to its traditional role in Latin America. Do you agree with that? What countries would be the ones where the IMF would be intervening, except for Brazil, and perhaps Latin America also has bad memories of past IMF interventions.

MR. WERNER: Well, it's very difficult, of course, to predict which countries are going to ask for financing from the Fund. Brazil has not asked for anything from the Fund. I don't know if they are going to. There are countries that are in bad shape, but they are perhaps not the ones that are going to ask for help from the Fund. I am always surprised how long countries can last out.

I'm not going to answer the question because I can't. It is impossible, absolutely impossible to predict who is going to ask for the Fund to intervene.

President Reagan once said instead of answering the questions, I'm going to actually talk about why I can't answer them.

QUESTIONER: I have a question for Ernesto. The conversation has been about Mexico and South America, but what do you think the outlook is for the northern triangle, in other words, Central America, which is suffering violence from drug trafficking and crime?

MR. IRAGORRI: We are going to take a few questions and then we will answer all of them at once.

QUESTIONER: With regard to Muni's concern about the sophistication or diversification of exports and the comment with regard to the sophistication of the export package, maybe one of the panelists could comment about the future or what recommendations you would make to work on the sophistication of the export package given the new circumstances.

MR. IRAGORRI: Another question?

QUESTIONER: I think this is for Ernesto but could be for anyone. You said that the problems have to do with integration and markets and the democratic system, but that means behind that, there is a capitalist sector that wants to invest and

also take on risk.

What I'm concerned about is that we are going to go back to our old ways. The private sector sometimes doesn't do what it is supposed to be doing.

MR. IRAGORRI: Do we have another question?

QUESTIONER: Good morning. My question has to do with the labor market. We have been glad because there has been growth in the middle class, but how much is that from the informal market, and now we are facing economic turbulence. How much of that middle class is going to face vulnerabilities and perhaps fall out of the middle class?

MR. IRAGORRI: Another question?

QUESTIONER: Thank you. Parlo Pardo, from El Mundo. For Mr. Werner from the Fund, in the short term, everyone was expecting the increase in interest rates in the U.S. and its impact on Latin America, now this is being put off time and again, but prices are dropping and there is deflation, so interest rates are growing in reality.

Can this have the same impact on Latin America, the same impact that the rise in interest rates would have? Can this cause turbulence?

MR. IRAGORRI: Who would like to go first?

MR. WERNER: With regard to the Fed's impact, I don't think we are seeing deflation in Latin America or no signs of it, or in the United States.

For Latin America, it is whether the Fed will be increasing interest rates and when, and it depends on the country. For example, in Mexico, if the Federal fund rate goes up and the U.S. economy recovers, this is good for Mexico because there is more demand for Mexican exports that are sold in the United States, and that is more important than the impact of the rise in interest rates.

Now, for Latin American countries where the links to the U.S. are not as strong, the impact would be greater, so the rise in the rates by the Fed will have an impact on those countries. It will slow down growth a bit, but I don't see signs of deflation

in any country in the region. As a matter of fact, some countries have the highest inflation rates in the world, so I don't think that's a problem in our region.

MR. IRAGORRI: Mr. Talvi?

MR. TALVI: I'm just going to answer one question because I think Jose Juan can speak to the question about Central America.

Look, I just want to reflect on the idea of productive sophistication. It turns out we have Nicholas Errata here, who is Vice President of our Board and also President of the Foundation, which is the first private secular school that is free in the most vulnerable neighborhood.

What was done was a revolution in management. I don't have time to go into it, but it is a different kind of management than what has occurred in traditional education structures that take children from very poor backgrounds, who come out of elementary school, those who usually drop out, those who usually perhaps have problems with the law, and they are taken into an environment where in addition to having great academic demands, it is also an environment where they are nurtured, which perhaps does not happen in their families, where they are told well, welcome to life.

I can assure you that when you see that firsthand and you see the results and outcomes that you can achieve with young people who supposedly have no chance in life, that's when you really have hope. Those young people are going to have a future. They are going to think that maybe they have a future. They thought they were going to drop out of school when they started, and now they think they are going to have a future.

With this, I will conclude. The best predictor of upward mobility in studies that have been done here in the United States is to have a four year college degree. Thus, I think in a continent where 50 percent of young people in keeping with international testing cannot be employed by the formal economy because they do not

have the minimum skills to work in a know-how economy, this is a society which in its foundations cannot imagine that this is where sophisticated products can be manufactured or made because you need skilled labor.

So, that is the challenge the region is facing for equality, quality of opportunities, to fight against social exclusion. What we need is quality education, especially directed toward the vulnerable segments.

Jose Juan, I want to tell you something. Before we thought we had to grow to include people. This logic that I've explained means we need to include people to then grow. I'm very optimistic with regard to trade, but less optimistic that some reforms can go forward, but there are examples, there are some points of light out there that we are seeing, and hopefully, government will emulate these models.

MR. RUIZ: The other question with regard to Central America, I think there is a historical injustice when we talk about Central America. We talk about Latin America, and we think the drop in commodities is bad for the entire region. That is not the case for the Caribbean and Central America. It is quite the contrary.

Central America imports commodities as well as the Caribbean. They are net importers of commodities, and yes, for them, it is a positive shock, this lower commodity price is, and secondly, very high growth in the U.S., and they can actually benefit from that.

You have to remember that remittances from immigrants are 12 to 18 percent of GDP, and any changes in migration laws could have a positive effect.

Where are the big problems? You mentioned them. The weaknesses of the state, a state that actually has a monopoly of a force and the use of force, and we see a citizen reaction, however, to this.

I think there have been changes in small countries, not just large countries. I think countries that are facing pressing problems are reacting to the problems of safety and security and middle classes are reacting. What is the possibility

of short term improvement? Well, it's a bit depressing.

Gordon Brown, the former Prime Minister of the U.K. said to impose the rule of law, well, the first 500 years are always the most difficult to do so. I think it is a gradual process, but there is a change, I think, that has happened, a qualitative one.

MR. IRAGORRI: In five minutes, we will start our second panel. Thank you, Augusto, Alejandro, Jose, Ernesto Talvi, and also our friend, Robert Rennick.

(Applause)

(Recess)

MR. IRAGORRI: I think we can begin. Once again thank you to the Brookings Institution for this panel and El Pais. I'm Juan Carlos Iragorri, the director of Cub de Prensa NTN24. I wanted to thank all of you for being here and I'd like to thank our panelists. This is the first time the Brookings Institution has held a forum exclusively in Spanish. But first I wanted to introduce Paula Lugones, a correspondent for Clarin, from Argentina. We also have Claudia Trevisan, a correspondent from O Estado de Sao Paulo, one of the most important newspapers in Brazil. We have Marc Bassets, the U.S. Correspondent for El Pais here in Washington. We also have Jose Jaime Hernandez from El Universal de Mexico. He's here in the middle. He is one of the best-known correspondents from Mexico. We also have Jose Manuel Restrepo. Besides being a columnist from El Espectador in Colombia and who appears on many radio programs and opinion programs, he is also the dean of the Universidad del Rosario. This is a university that's been around for more than 350 years. It's one of the best known in Columbia. Thank you for being here.

I wanted to begin with Paula Lugones. I'm going to try to this a briefer panel so that we have more time for questions. Beginning with Paula, we're going to have presidential elections in Argentina on Sunday. This is at least the first round. The run-off would be November 22, and the candidates Daniel Scioli, who is from the Front for Victory, and then we have Mauricio Macri, the main opposition candidate and he's

also related to Boca (inaudible) and then we have set Sergio Massa, who is third in the polls.

So I wanted to ask you, Paula, how you see the political and economic outlook in Argentina right before the election and the end of the Kirchner era.

MS. LUGONES: Thank you Juan Carlos. It's very difficult in five minutes to summarize the complex reality -- both the economy and the political situation of Argentina. I'll try. Fortunately the previous panel gave us a complex and excellent description about the general issues affecting the region.

And what are the particular challenges? Argentina is facing all of those challenges and issues, but there is some specific characteristics that I'd like to point out now, so that you know that -- what the next president of Argentina's going to have to face. First statistics. Nobody knows really what's going on in Argentina. It seems like it's from another planet. In the past 10 years, it's been a decade where the government's been tampering with the statistics and manipulating them so we don't know what inflation levels are in the country. The unofficial estimates are 25 percent, which is the highest -- one of the highest in the world. The government says not that 11 percent, which is much higher than what they admitted it to being just a year ago and then there's the matter of growth and if we consider GDP or they're not looking at GDP, they don't think it's that necessary. They manipulate the statistics at least internally and then if we look at IMF measurements -- external measurement but Argentina has not been growing in the past two or three years, they've had negative growth and next year they're predicting just half a point growth.

The stagnant economy is going to be a major challenge for the next candidate president. Another very specific situation to Argentina is about the exchange rate. The government says that this is something that was invented by the candidates over -- or the media -- but this is a measure that Kirchner took in 2011 to prevent a capital flight and what it did was create serious distortions, not just for businesses, exporters,

importers, but for regular citizens where they don't know where they can purchase dollars that they can save or take a vacation. There are serious problems for exports. There are major restrictions on imports because of different bureaucracies. It's very difficult and the export or import of inputs -- of what the dollars and so this has created a black market or a parallel market where there is a dollar -- a parallel dollar that is worth twice what the official exchange rate is. If we add these to all the complexities being faced in the region and the drastic situation in Brazil with years of recession and a serious devaluation of the real, this is clearly going to have an impact on Argentina because Brazil is its main market -- Argentina's main market, market for our exports.

Something else is fiscal spending. There has been a huge amount of spending in recent years, especially this year in an election year -- has been in previous panel said this is a reality generally speaking in Latin America but government spending in our countries is huge, it's approximately five percent of GDP this year and something else that's of a great interest in the U.S. is the matter of holdouts -- we know that this is -- there has been a case in the courts in New York about this. Argentina says that once these scavenger funds or these hold outs, but they say that Argentina doesn't want to pay. Argentina is in selective default or partial default or whatever you want to call it. Even the government of Argentina says they have no idea what that's about, they are not in default. They are intending to pay it.

So their external pressures nobody wants to lend money to a country in default and there is so many complexities if you want to invest. And even to take money out, companies profit -- it's very difficult to take them out of Argentina. It's a very complex process. So it's a very complex situation. Everything is kind of frozen in time. Nobody is making decisions.

The regular citizen who wants to take a vacation is waiting to say what will happen to the dollar in the next administration. So we have elections this coming Sunday. As Juan Carlos said there are three candidates. The one's who have the

greatest chance of winning. We don't know if there'll have to be a runoff. That will be known on Sunday, but there is consensus at least amongst the teams of the three candidates as to what the most significant issues are in the short term.

And what (inaudible) who's the one -- who's number one in the polls right now, who could very likely be the next president if he wins in the first round. If there is a run off we'll see. But what's he saying about this currency exchange control? He is saying okay if he's the candidate. This is the official party, which was blessed, though reluctantly by Kirchner, she doesn't like him too much. But officially he is the government's preferred candidate. So he says well I don't know about those currency exchange control. It might exist for some time. We know that there are lags, but they probably won't be lifted at the very beginning, but they'll raise the rate -- the dollar especially for this exchange lag. Massa says no, on my first day in office we'll take away all barriers to imports, exports and everything will be done freely.

So the big question is, how will the dollar fluctuate? What is the exchange lag that exists in Argentina? So that's what nobody knows right now.

What about the holdouts? What is each candidate saying about the holdouts? Massa and Macri are saying that we have to come here to the U.S., got to New York and negotiate immediately with these funds. This is what is required in international finance. Argentina needs external financing quickly to make the corrections and adjustments necessary -- need fresh money. So they are saying in their ambiguous policy said yes, in this particular case it's a matter that has to be resolved. We have to have a goal, but they are saying okay we'll -- we're not going to do this on the backs of the citizens, we'll do it in a dignified way. So this may be something that the Kirchner followers are pleased about but the future -- Jose Manuel Torres the future foreign minister traveled to New York to talk to investors and who said publicly that we have to negotiate with the holdouts now. We need a fresh injection of funds in Argentina so that we can make the drastic adjustments we need for an investment and loans. Without

them we will not be able to deal with the matter of holdouts and get a fresh injection of funds.

In summary we'll be able to talk about this in more detail later if you will, but people are already talking about the post-Kirchner era. And no matter who wins, we believe that there will be changes. There is going to be a surgeon as we talked about before. And this is going to be a major operation. Is it going to be a major operation -- drastic operation or is it going to be one that's gradual?

MR. IRAGORRI: The regional and municipal election is coming up in Columbia on Sunday so I want to talk with Jose Manuel Restrepo. What's in play are the mayorships in Bogata where eight million of the 40 million Columbians live there and in recent polls we've seen (inaudible) and Rafael Pardo who are from another party and (inaudible). You have written extensively about this, so now the peace process is underway and the government of Juan Manuel Santos and his team and the team from the FARC; Santos and the chief of the FARC made an announcement about an agreement as to how the members not just of the FARC but other armed groups operating outside the law will appear before the justice system.

Then the third week of March -- that's the deadline for the signing of a definitive agreement. But Colombians are continuously wondering what benefits will peace have for the economy? Because the time when there was the most investment in Colombia was during Uribe's administration and this was to fight terrorism, so it was greatly beneficial for Colombia. I mean can we say that or not?

MR. RESTREPO: Well first I'd like to thank Brookings and Juan Carlos for this invitation. I'm pleased to be at this event and to see that this is in Spanish and it's the first one that was ever done in this institution entirely in Spanish. I'm from academia. I can allow myself the luxury of telling you a story where 15 years ago I was with students in my macroeconomics class and I said what are you going to do in the future and 85 percent of those young people wanted to leave the country.

And not to do a master's degree or get their Ph.D., they wanted to leave the country because they saw no viable options in the country or the possibility of a country with any sort of future. So if I asked that question now to a similar group of students most of them believe in the country, they believe there's hope. And what happened on September 23rd and what the government signed and looking at the 23rd of March went a long way toward building up society in this country and we shouldn't forget clear reality. This is a situation that exists for more than 50 years. My generation has never lived in conditions of peace.

We have had to live with terrorism, violence in such a way that possibility of what can be built from here unto the future is huge for the country. What will happen on March 23rd is key and not just that day but month thereafter when they are going to put down their weapons. This is going to be extremely important for future generations of Colombians. Of course, Colombia is part of this global economic turbulence. We saw that this is a modern example of those countries that have effective macroeconomic policies in place and in the case of this is what happens --there happens to -- it's kind of like when you are at sea and then it's low tide. So everyone knows who is wearing a bathing suit and who is not and I believe that Colombia is wearing the bathing suit and you can see this through different realities.

It's because there have been social policies, it's been very strong, the unemployment rate has dropped significantly, more than 40 percent. Absolute and relative poverty has dropped by approximately 50 percent and formality has also dropped dramatically, so there is better quality of jobs and this building the middle class is more than doubled in a country so there is a significant social platform and human capital which is what is necessary toward building for the future. We've seen this through a direct foreign investment in the country. We've almost broken the international record on increases in foreign direct investment in the country. This mean that following macroeconomic rules that people believe that the nation has the ability to withstand the

crises that is currently underway.

But what happens then. We have to ask the question how are we going to prepare ourselves for the coming years? The matter of peace. Many studies have been conducted in the country and it says the impact on growth in the country between 0.4 and 2.5 percent additional - there have been more than 20 different studies where the estimates are more or less those. There are different realities however. The impact won't necessarily be immediate, this is a reality that we have to bear in mind. The second situation is the following. It won't be equal nationwide. There are some regions that will benefit more, those that have historically been a conflict, may benefit more than others. Then there will be an impact. The markets have almost ruled out this phenomenon already and so there will be an economic impact and that's the only way to understand this foreign direct investment and its increase in the country.

And lastly there is an impact in terms of cost. Peace isn't free. You can't just sign a peace agreement and then immediately live in a different nation, there are going to be costs for reintegration not just for those who are involved in the combat but for those individuals who have lived in conflict zones in the country, all of this for displacement.

What about the cost for victims? This also has a significant impact on the economy. With or without an agreement there is going to be a process of rural reconstruction. These areas are significant in their relatively large and so if we're going to look to the future of agro-industry we are going to have to work with the public bids in these areas and lastly we have the matter of infrastructure and pensions. If we look at estimates and again there are about 15, 16 studies about this, it would be between 1, 1.5 percent of GDP annually. That's what it's going to cost us nationally.

So at the end of the day the idea is to capitalize on what can come is as part of the process, but prepare the nation for a different future. A nation that needs like the rest of Latin America does is a new development model. It cannot just rely on

commodities or raw materials or fully on government spending.

We also have to work on institutional agendas, this means to reduce these huge levels of corruption that exists in Columbia and other Latin American countries. This is unfinished business. We have to also have a social agenda. We have to reduce inequalities. This is a shared agenda with the rest of Latin America and I think it's the only path to ensure that peace can take root in Columbia. We can't go back to old mediocre growth in Latin America because if you have a larger middle class it's no longer going to be possible as we're seeing to just look the other way when we see major inequalities because we don't want to move backwards in Latin American. Going back to old types of populism that are currently prevailing in certain countries.

We have to be competitive, there has be a new social contract in Columbia and the rest of Latin America and that's the way we are going to tackle the challenges.

MR. IRAGORRI: Thank you, thank you. It's interesting to hear the differences between Argentina and Colombia which are relatively similar in size in terms of population. Okay, and now I wanted to talk about what's happening in Brazil with the Brazilian economy. The president's approval rating have fallen, even below 10 percent in some cases which is huge and then the country is enmeshed in the Petrobras scandal and is Dilma Rousseff going to be impeached, et cetera, so what is your vision about Brazil?

MR. TREVISAN: Well first I think I'm the only one who is not going to celebrate the fact that this is in Spanish. I apologize ahead of time for my terrible Spanish, but I hope you understand me as I share what I think is going to happen. And I think you will all understand and believe me when I say nobody knows what's going to happen in Brazil and that's a major problem in Brazil now. It's the uncertainty. It was generated by a political and economic crisis and it is part of the largest corruption case ever investigated in Brazil. I don't think I have ever myself experienced a situation like

this where nobody knows what's going to happen. It's even different from the situation in the 80's and 90's. Investments have been suspended and those in the government and Congress are paralyzed because of the internal dispute of whether there will be an impeachment process against the president. The government is doing whatever it can to prevent impeachment from happening and the opposition wants this to go forward. Both sides are focusing all of their efforts on this and in the middle we have the speaker of the Chamber of Deputies who is the most recent target of corruption -- of the corruption scandal with Petrobras. Dilma Rousseff just took office just 10 months ago, but it seems like an eternity. Her approval levels have tanked and this was because mistakes that she herself made.

There are two possible paths that could be taken and we can talk about those in more depth but today we've heard a bit more about impeachment. This was something that was raised in the Chamber of Deputies. Also the credit rating of Standard & Poors had lowered the rating that Brazil had achieved in 2008 and maybe that another credit agency will make a similar decision and this is very negative in terms of the country's ability to attract investors and attract money.

There is also the matter of corruption. This is -- involved in this is Petrobras which is the largest state company. Petrobras accounts for approximately two percent of GDP and the major developers involved are -- come from another three percent. The economy will drop in three percent which is much more than any economist had predicted at the beginning of the year. I'm not sure if recovery is possible in 2016; unemployment and inflation are approximately 10 percent, this constitutes a threat to the social gains that have been made in recent years. As Ruiz was saying here, employment and jobs were one of the catalysts for the creation of this larger middle class, which is part of the economic engine of the country. The government -- it's potential that there will be primary deficits for a second year in a row. We're at a crossroads and the president is trying to correct the excesses of the economic policies and implement it during her first

term, but there's great pressure from workers and from the minister of the economy to adopt unorthodox economic policies, artificial reductions in interest rates and fiscal expansion in the scenario through more government spending. The future of the country depends on the path we choose at this crossroads. The government should resist the temptation to implement populous measures and find a solution that will bring political stability to the country.

One of the operations of fighting corruption has left a significant legacy. There was a change in the way in which institutions in Brazil take on this problem. For the first time in history the country is seeing some of the most powerful members of the business community actually going to prison. There was one individual who was arrested in June and this is something that hadn't been seen before in Brazil. The investigation should also exercise greater pressure toward economic reforms to reduce the scandalous numbers of parties that we have. We have 32 political parties now, and it makes governing a matter of constant negotiations. And always based on certain interests and many of the bribes that were paid in the case of Petrobras came from the political parties that benefited from them to reach power.

It's like Aesop's fables: Brazil during the bonanza years implemented reforms -- they didn't do that during the bonanza to make it more competitive and to attract investment, investment in education which as we've heard is the foundation for sustainable growth in Latin America. This is an agenda that will have to be taken by anyone who reaches power.

MR. IRAGORRI: Okay, thank you, Claudia. In the case of Mexico I wanted to ask about statements that were made by the secretary of the economy who is like the finance minister and the right-hand man of Enrique Peña Nieto who is involved in a number of scandals that has to do with the purchase of several homes, scandals that (inaudible) is also involved in. Also the scandal of Peña Nieto because they haven't found those 43 student teachers -- the normalistas as they are known in Iguala and

(inaudible) school. It's scandalous because the scandal of El Chapo Guzman who escaped from prison, but Mr. (inaudible) said Mexico is a country that is well-positioned to face issues. That's when he was responding to this. Is Mexico prepared?

MR. HERNANDEZ: Well first of all thank you very much and thank Brookings and CERES. I think it's paradoxical to see now how in Mexico, well it's kind of a schizophrenic country. It has economic operators that are very effective and do well in managing finances. They learned from the crisis. This was called the tequila effect, the first large crisis of the 21st century. And then we have a very capable economist, but at the same time we have a political class that is not up to the task and I recall and I'm sure you recall the expectations that were created by Presidente Peña Nieto when he began his term. He was on the Time magazine cover. But now we have ongoing crises.

I recall that when he took on power the promise of social reforms which were very necessary was for all Mexicans. Well, this created great expectations, but as many times what happens with regard to political expectations is that it's a boomerang. In other words if you cannot meet people's expectations they come back to haunt you and I think this is what has happened with President Benito. The significant and necessary reforms on the fiscal side and the educational side, also the petroleum sector is very complicated. I remember that many people were worried about the energy reform because they thought that the energy reform meant -- well are the gringos going to come and are they going to take over our oil companies? Because there's this left segment of our society that believes that the gringos are going to come and take over. So there's a process of debate and there was a discussion, there were protests in the street, I think that perhaps the debate was not intelligently done or the reforms either, so they come out but not smoothly.

But one thing is to foster reform and prove them through decree laws and a different thing is the context in which you actually try to implement reform and just to mention by other panelists, what is needed in Latin America and Mexico in particular is

the birth of the modern state. What do we understand by this? A state where there is a rule of law, where freedoms are guaranteed, where development and growth is inclusive. As Ernesto said I think that is the pending issue.

When we don't have this combination of factors, when the context does not support the reforms the reforms of course come up against this. Well if on top of this you add these scandals of corruption, the properties of the spouse of the president built by a constructor or builder who had actually benefited from policies, while also the secretary of finance and then Chapo Guzman's escape and Mexicans think well what else is going to happen now?

And so this speaks to the fact that there is an incredible lack of credibility with regard to politicians and Mexicans do not believe in their politicians and I think they are right to not believe in them. What we can't lose sight of is I believe that countries like Mexico with the phenomenon of the Facebook, Twitter, social networks, I have the impression that history has sped up. Societies are not so passive. No, now they are more demanding and why are they more belligerent. Why are they demanding more? Because in Mexico the demographic equation is the reverse of what it is in Europe and in other words we have more young people than elderly people. When these young people go to university and they come out of university they can't find a job.

And so their social exclusion that's occurring if on top of that you add the fact that we have more 50 million poor people. We have a great social leg and the Peña Nieto government -- well to fight crime and has made some progress. For example, with this opportunity program that was put in place but since oil prices have declined and then these other crises that have been unleashed the number of poor people -- the figures have gone up markedly. So at first they were able to lower the percentage of poverty, but of course oil is what is supporting 40 percent of our public accounts.

And so of course what has the government had to do? It's had to tighten its belt in order to continue to help the poor people and also this kind of governance

where you are actually giving favors to people because they are close to you and the state actually has agreements with the other tacit ones with mafia types -- even the educational unions, but the interesting thing is that the state has actually not done anything to fight the crisis. They need to diversify the economy. But the good news from my point of view is what is different in Mexico is that Mexico is in sync -- more in sync with the U.S. economy because this with regard to security, exports, imports, this week, MOU was signed with regard to customs that will allow customs agents of Mexico to be operating from Laredo down and vice versa.

For example, U.S. agents can -- customs agents can operate in Tijuana and so what we are trying to do in Asia also -- this is also starting to bear fruit and I think there is no way back. But I think that the great question now is to what extent this new model of this new agreement is going to allow for social development? Will it meet expectations with regard to social inclusiveness, taking into account that Mexico is one of the most unequal countries? We have some of the richest -- or we have almost the richest man in the world, Carlos Slim, right? And then we have people who live in absolute misery.

And so this is one of the most difficult things. The system has not been able to actually bridge the gap and reduce inequality. I agree with Ernesto is that social inclusion is the pending issue because -- and I'm not talking only about the future of Mexico because this is not just a problem that exists for example in Mexico or if you look at Greece for example or it's not just Spain, it's not just Latin America. I remember that when I was a correspondent in Europe I remember that when I would go to Spain and Germany I would think -- I would love for this kind of welfare state to exist in Mexico but that has been eroded in Europe and so what we have to resign ourselves to -- especially new generations is to ever more precarious work that is not well paid and in that context if we do not resolve the problem of social inclusiveness I think that can be a ticking time bomb.

MR. IRAGORRI: Well and finally we do have Mark Bassets, but I did want to add that Joe Biden it turns out is not going to get involved in the presidential race.

Well Spain is extremely important for Latin America, Marc and it of course represented Latin America in the region in the European Union and 40 percent of foreign direct investment from Spain goes to Latin America. Well, but the trade between Latin America and Spain does not reach high volumes, what can you say about this phenomenon?

MR. BASSETS: Well, the relationship of Spain with Latin America is based on investment, economic ties, cultural ties and also historical ties. Well the Spanish empire -- well it's lead to a difficult relationship sometime but we have two pillar here which are important for Spain inclusion and the European Union and of course this is a matter that is now being debated once again, but it was fundamental to Spain to anchor itself in Europe and then we have this other link with Latin America. Latin America affords Spain a very particular identity in the European Union. It's a medium income country. It doesn't have the economic strength of France or Germany, but it does have this idiosyncrasy that it in a way is the bridge between Europe and Latin America and the fact that Spain is a member of the European Union -- this strengthens ties with the European Union and also give Spain value added in its relationship with Latin America. But of course in recent years the economic crisis which has been very serious in Spain has lead to some withdraw and that's been seen not -- well all over the world, but also in Latin America.

Well, behind the Latin American -- pro-Latin American talk in Spain we don't see many times real measures taken -- a specific case which we've seen in recent months this Cuba, for example, this has been extremely important. What has been going on in Cuba for example -- this geopolitically speaking the improvement of the relationship between the U.S. and the Cubans. The Vatican was involved. European Union countries have run to support this, but Spain doesn't seem to have been on the frontlines of this

and it's an example of how Spain has not been up to the task really, and it's very striking that in these panels for example the mention of Spain has been, well, inexistent. They needed Latin America both politically and economically for example.

Also Spain's presence in Latin America is important, but after having heard the economists speak, I'm wondering does Latin America need Spain in a time of turbulence and times of economic crisis? After the golden decade in Latin America, is Latin America looking to Washington, to the Federal Reserve, is looking to China, but I wonder is it looking at Spain?

And that would my conclusion. I think Spain needs Latin America, but Latin America does not seem to need Spain.

MR. IRAGORRI: I think it's important to recall that he is from El Pais newspaper which is one of the most important sponsor of this event and they have a wonderful electronic version of the newspaper. I don't know if there are any questions in the audience. If you do please go ahead and please be brave.

QUESTIONER: It's for Paula, Paula you said that Sunday's elections -- well the possibility of the first round or a runoff -- what would happen if for example the difference in the vote for one candidate or another was almost negligible -- that this difference would mean that the courts would have to get involved in the recount and that this could actually call into question legitimacy of the new president.

MS. LUGONES: Yes, that's one of the possibilities of what could happen this Sunday. As you know so someone becomes president in the first round. They must get more than 45 percent of the vote or if not well more than 40 percent if the second person gets a certain percentage of the vote. Now Scioli only has 38 percent of the vote currently, with two percentage points more -- 40 percent and Macri has 29 - 30 percent. So one percentage more or less can actually mean that there is a winner in the first round or not. We have some serious precedents with the election Tookaman region some months ago. The courts got involved, there were incredible irregularities -- some of the

ballot boxes were burnt. And so we see also manipulation of votes and we see people steeling actually the voting papers and people go to find the ballots for a certain party and they can't find them.

And so there is a national movement against this because there's a great concern and people are demanding that prosecutors go and oversee the election so that they are clean or at least as clean as possible. It favors no one that there be a new president who's legitimacy is called into question and Scioli, for example, who is leading in the polls and he would not be favored in that kind of situation.

Now in the Peronism there are some things that happened in the past which might lead us to think otherwise. For example, Kirchner when he was elected for example only got 20 some percent and then actually was a strong president.

MR. IRAGORRI: Ernesto?

MR. TALVI: I'd like to know Claudia, I understand what you said that it's not possible to say what's going to happen in the future but predict that you don't have a crystal ball but if, just if, Dilma actually decides to resign, what would happen to the political architecture in Brazil and do you think there would be possibilities of governance and that a government -- a new government could act decisively?

MS. TREVISAN: Well, I need to look at the constitution. I think that if they resign before half their term is over, I think there need to be new elections. Well I think it depends on the context. I think it's the best path. Well, it would be the best path for her to resign but also of course we would need to also have the vice, well, of course the vice president would take over, there wouldn't be new elections. Excuse me.

But it also depends on Michelle Kimmer can actually negotiate with the opposition. It depends also on the opposition. Of course, many of the problems the government is having with regard to governance has to do with the division that exists within the government. PMDB, and we have the speaker of the Chamber of Deputies who is from the PMDB so it depends on whether the PMDB supports Michelle Kimmer,

what is going to be the position of the PT and they have many seats in Congress and how the opposition acts. It's unknown. It depends on a political agreement perhaps or whether the pressure continues to have new elections, not just a resignation of Dilma but also resignation of the vice president. That is a possibility. There are two paths that the opposition is trying to force on the president. One would be through the electoral tribunal which would be to actually revoke her mandate, and so in that case we would need their resignation of the president and the vice president and then new elections would be called if it's before she's finished with half the term or also the request for impeachment.

If this request for impeachment is based on person liability or responsibility of the president and she is impeached, then the vice president would have to take over. If the vice president were involved somehow or accused, he would also probably have to resign.

MR. IRAGORRI: Well, I think our time is over. Thank you very much to Brookings and CERES, to El Pais newspaper. Thank you to all of our panelists, Jose Jaime, Jose Manuel, Claudia, Marc and Paula. I look forward to seeing you next time.

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