

# THE FIFTH SUMMIT OF THE AMERICAS

RECOMMENDATIONS  
FOR ACTION

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MAURICIO CÁRDENAS

# INTRODUCTION: THE FIFTH SUMMIT OF THE AMERICAS

AN AGENDA LEADERS SHOULD  
AGREE ON

Heads of state of the Western Hemisphere will gather in Trinidad and Tobago on April 17-19 for the Fifth Summit of the Americas. Although recent summits—especially the last one in Mar del Plata in 2005—have been far from successful, this year's summit has generated attention because it will be the first meeting between President Obama and many of his Latin American and Caribbean counterparts.

No one expects the lofty ambition of the 1994 Miami Summit, when the Free Trade Area of the Americas was announced as an overarching regional goal. History suggests the need for a more pragmatic approach. Some concrete steps can be undertaken in the direction of building regional solutions to global challenges. The general idea is that the reemergence of multilateralism, with the formation of a solid bloc of regional partners, is a natural first step. The regional dimension is not only the result of geography but also of the joint commitment to democratic institutions.

Countries in Latin America have experienced remarkable economic and social progress in the recent years. This creates self-confidence, which is an important ele-

ment of the new dialogue with Washington. A partnership seems desirable and viable in the hemisphere.

Given its magnitude, the global economic recession will unavoidably become a central theme during the summit. Countries in Latin America and the Caribbean are beginning to see sharp contractions in industrial production, reduced confidence and higher unemployment. In January, industrial output fell 11 percent in Mexico and Colombia, and an astonishing 17 percent in Brazil. Exports are also plunging with reduced demand in the developed world and low commodity prices. Chile and Peru, among the largest commodity exporters of the region, saw exports decline in January by 42 and 39 percent, respectively. Overall growth projections are being revised downwards at an unprecedented pace. Consensus estimates predict that the region's growth will come to a halt this year, and that next year's could be even worse.

The fact that countries of the region have extremely different characteristics should not be underestimated. The degree of demographic and economic interdependence with the United States is a key element that should be

considered. The extent to which countries have opened their economies in the global market, the advance of democratic governance, the effectiveness of institutions, and the extent to which traditionally excluded populations are incorporated, are critical dimensions that deserve consideration.

This fifth summit should initiate the process of building a true partnership for the Americas. Rather than lecturing Latin American leaders on what they should do, the U.S. should put forward innovative proposals. This compilation includes policy recommendations that are more relevant for today's turbulent world.

### Hemispheric Opportunity

The top challenges awaiting the Americas at the Fifth Summit are vital to the prosperity and stability of the region:

- **Setting the right agenda for multilateral institutions.** The recovery from the crisis might be longer than expected and multilateral institutions will play a crucial role in assuring the long-term macroeconomic stability of Latin American countries. The role of multilateral institutions needs to be strengthened. They should also move away from short-term financing, redefine the emphasis of their loans, and ensure that countries work towards sustainable fiscal policy.
- **Making trade a priority.** Together with the three Latin American countries in the G-20—Mexico, Brazil, and Argentina—the United States should work at the hemispheric level to help preserve the hemisphere's open trading system. This would include setting a commitment to multilateral trade and to avoid protectionism, developing a regional mechanism for the surveillance of tariff and non-tariff trade restrictions, increasing the amount of trade financing available to exporters, expediting the disbursement of aid for trade for low-income countries, and finally, for the United States, ratifying pending free trade agreements with Colombia and Panama. Moreover, NAFTA should be re-invigorated as part of a hemispheric effort to stimulate trade and deter protectionist measures. In this context, cooperation on infrastructure, education and health policy should be enhanced.
- **Securing the energy future of its citizens.** Hemispheric cooperation to adopt market mechanisms and new technologies that encourage efficient energy use and a shift away from carbon emitting fuels will benefit all countries in the region. The summit should establish a group to address climate change. The U.S. should open its market to imported biofuels, and should fund a renewable energy laboratory of the Americas for the development of better technologies in solar, wind and biomass energy. The countries of the hemisphere should work more towards infrastructure integration.
- **Recasting the debate on drugs.** The hemisphere needs to recast the discussion on the drug problem. Based on recent data and research, leaders should promote a hemisphere-wide discussion on drugs where less emphasis is placed on forced eradication and more weight is given to the discussion of policies aimed at reducing demand and consumption.
- **Strengthening human security.** Crime levels in Latin America and the Caribbean are the world's highest with dire social and economic consequences. Countries of the Americas should cooperate on the expansion of state-strengthening efforts that improve the governance of security issues as well as safety on streets. Upgrading law enforcement insti-

tutions, and the workings of the judiciary are a top priority in many countries, including Mexico. Illicit gun trade from the U.S. to the region should be a focal point for U.S. authorities.

- **Enhancing democracy.** Strengthening democracy in the hemisphere should be a top joint priority. A new partnership is needed to help share the financial and diplomatic burdens of this task. This would entail depoliticizing democracy assistance, strengthening the Organization of American States (OAS) and its Inter-American Democratic Charter, and internationalizing democracy assistance. The U.S. and Brazil could play a major role in this area, especially in regard to countries where democratic governance is either weak or nonexistent.
- **Advancing U.S. policy towards Cuba.** U.S. policy towards Cuba should advance and be based on critical and constructive engagement, as an opportunity for the United States to re-start its relationship with the hemisphere. The U.S. should broaden and deepen bilateral and diplomatic relations, enhance contact between Cuban and U.S. citizens and permanent residents, end the communications embargo, establish civil society assistance, and remove Cuba from the list of terrorist countries.
- **Dealing effectively with the crisis.** The welfare losses associated with the crisis are difficult to predict, but are likely to be significant especially in poor countries. The Summit of the Americas brings an opportunity for the countries of the region to discuss a coordinated effort to deal with these losses. More aid and concessional lending will be necessary to countries that are unable to cope with the crisis with their own resources.

Following in this volume are additional ideas and recommendations for leaders of the Western Hemisphere. From political to economic perspectives, these proposals could help shape a new era of hemispheric partnership and robust engagement.



ABRAHAM F. LOWENTHAL

## DISAGGREGATE LATIN AMERICA

### THE FIRST STEP TOWARD SOUND U.S. POLICIES FOR THE AMERICAS

Ronald Reagan's reported comment on returning from Washington from his first trip to South America as president was "These Latin American countries are all very different from each other."

As President Barack Obama and his team head off for the president's first trip ever to Latin America in mid-April, first to Mexico and then to the Fifth Summit of the Americas in Port of Spain, Trinidad and Tobago, they would do well to internalize Reagan's homely insight. It is critically important for the new U.S. government at its senior levels to take seriously the oft-repeated advice of regional experts to disaggregate "Latin America," to understand its complex diversity.

#### The Context

It is not new to say that the countries of Latin America and the Caribbean vary enormously, and that they have different interests, needs, capabilities and relationships with the United States. Emphasizing this is now more important than ever, however. During the past 20 years, under administrations of both parties, Washington has tended to underline the supposed convergence within the region: toward democratic governance, market-oriented economies, regional economic integration and policies of macroeconomic and fiscal balance.

These convergent trends were real, though never universal, and they have been significant, though never as fully consolidated as Washington liked to claim. But despite these broad regional trends toward democratic governance and market economies, key differences persist among the many countries of Latin America and the Caribbean. And some of these differences are growing, not shrinking.

#### The Challenge

Some of those advising President Obama will stress the distinct geographic regions: Mexico, Brazil, the Caribbean and Central America, the Andean Ridge, and the Southern Cone. These regional differences, including the degree of proximity to or distance from the United States, remain important in defining some aspects of inter-American relations, but location does not decide everything. Some nearby neighbors of the United States, such as Cuba and Nicaragua, are hostile to Washington; some distant nations, such as Chile or Uruguay, enjoy warm and supportive relations with this country, for example.

Other advisors will divide the countries of the Americas into (friendly) democracies and (hostile) dictatorships, or they will distinguish between leftist and center-right

approaches. Better-informed analysts will further divide the “left” into social democratic regimes and those with a populist authoritarian tendency. Venezuela’s Hugo Chavez heads this latter group, and one of the most important questions facing the region is whether and to what extent his influence will spread. Bolivia, Ecuador and Nicaragua seem inclined, to different degrees and in different ways, in that direction. But Paraguay, Honduras and (soon) El Salvador also have governments that might be tempted by some of Chavez’s rhetoric and policies, and Cuba under Raul Castro remains closely allied with Venezuela.

### Hemispheric Opportunity

The best approach is for the Obama Administration to consider how the different countries of the Americas cluster along five separate dimensions and how to impact policies taking these dimensions into account:

- The degree of demographic and economic interdependence with the United States. This is highest and still growing in Mexico, Central America and the Caribbean; lowest and likely to remain low in South America, and especially in the Southern Cone. Countries such as Mexico, El Salvador, Jamaica, the Dominican Republic and others, which have significant fractions of their population living and working in the United States, pose “intermestic” issues—combining international and domestic facets—from immigration to medical insurance, pensions to drivers licenses, remittances to youth gangs.
- The extent to which countries have opened their economies to international competition. This has happened by far most fully in Chile; a great deal in Brazil, Colombia, Mexico, Peru, Panama and some Central American nations; and less so in other countries. A key challenge in the current world economic crisis will be to shore up the trend toward open economies by resisting domestic pressure for protectionism, in our own case as well as in Latin America.
- The relative advance of democratic governance (checks and balances, accountability, and the rule of law). Historically, this has been strong in Chile, Uruguay, and Costa Rica; increasingly, if quite unevenly, robust in Brazil; gaining ground in Mexico over the past 20 years but with ups and downs, hard struggle and major recent setbacks; arguably declining, or at least at risk, in Argentina; under great strain in Venezuela, most of the Andean nations, much of Central America and Paraguay; and exceptionally weak in Haiti. The Obama Administration can make an important positive difference on these issues by respecting the rule of law at home and internationally, and by nurturing democratic governance abroad with patience, restraint and skill, mainly through nongovernmental organizations.
- The relative effectiveness of civic and political institutions beyond the state (the press, trade unions, religious organizations, and nongovernmental entities). These are strongest in Chile, Uruguay, Costa Rica, the Dominican Republic and perhaps Argentina; growing but still severely challenged in Brazil and Mexico; slowly regaining stature but still quite problematic in Colombia; weak in Peru, Bolivia, Ecuador, Paraguay, Venezuela, most of Central America and Haiti. Washington can help strengthen nongovernmental institutions, but it should do so as much as possible through multi-lateral organizations, and in strict accordance with each country’s laws.
- The extent to which traditionally excluded populations are incorporated. This includes more than 30 million marginalized, disadvantaged, and in-

creasingly politically mobilized indigenous people—especially in Bolivia, Ecuador, Guatemala, the Peruvian highlands, and southern Mexico—and Afro-Latin Americans in countries where they are still the object of racial discrimination. The very fact of President Obama’s rise to the presidency has probably done more to affect this issue than years of more direct policies, but enhanced U.S. support for poverty alleviation, with some of this targeted at excluded populations, would also be helpful.

Hemisphere-wide summit conferences like the meeting in Trinidad and Tobago have their place as a way of building communication and rapport, and they offer mutually convenient photo opportunities. But major progress on substantive issues can only be achieved with clusters of countries with comparable or complementary issues and concerns. Recognizing this reality by establishing multilateral working groups on key questions should be the starting point for reframing U.S. policies in the Americas.

### Want to Know More?

Lowenthal, Abraham F., Theodore Piccone, and Laurence Whitehead, eds. (2009), *The Obama Administration and the Americas: Agenda for Change*, Brookings Institution Press.



THEODORE J. PICCONE

## ENHANCE DEMOCRACY IN THE AMERICAS THROUGH MULTILATERAL ACTION

The mere fact of Barack Hussein Obama's decisive election as the first African American president can be a pivotal turning point in a much-needed repositioning of the United States' role as an ally of democratic reform around the world. This is particularly true in the Western Hemisphere, where democratization trends are fragile and U.S. influence is waning. The Obama Administration needs to overhaul U.S. democracy strategy by investing serious time and resources into strengthening and, where necessary, creating new multilateral tools to support demands for good governance in Latin America. This will require a significant shift in thinking away from traditional bilateral channels of diplomatic pressure and assistance and toward multilateral cooperation with like-minded partners. The Fifth Summit of the Americas meeting in Trinidad and Tobago, with strengthening democratic governance as one of its main themes, is the ideal venue for pushing the reset button.

### The Context

According to a number of polls, most Latin Americans, like the vast majority of people from other regions, believe that democracy is better than any other form of government. But Latin Americans are largely dissatisfied with the way democracy works in their countries, particularly when it comes to distributing income and pro-

viding social protections. Corruption is seen as a huge impediment to improved governance. Trust in politicians and political parties ranks particularly low. To prevent backsliding toward authoritarian rule, democracy assistance needs to translate into tangible improvements in the judicial system, accountability of public institutions and politicians, greater transparency, and improvement in public services.

Even though the United States has a vital interest in seeing a hemisphere of prosperous democratic states governed by the rule of law, its historical legacy in the region and its militarized campaign for political reform in Iraq handicap its credibility in working toward that goal. Meanwhile, Latin American publics' perception of other international actors—the United Nations, the Organization of American States and the European Union, for example—is more positive.

### The Challenge

Given these realities, and the inherent sensitivity of providing external support to local actors involving their own political affairs, it is critical that Washington move in partnership with others. It needs to reboot its image in the region as an ally of democracy by working closely with countries and international organizations that are

accepted as credible actors, share basic assumptions about the positive link between democracy, development, and peace, and are willing to join in a deliberate though more muted effort to strengthen respect for democracy and the rule of law in the region. Washington needs to walk softly, talk quietly, and join hands with others.

Partners are needed as well to help share the financial and diplomatic burdens of this task. U.S. foreign aid will likely face significant cuts as a result of the global recession. But a serious reduction in democracy assistance, which demands a long-term and consistent commitment of resources and expertise, would undermine our own interests in making sure that scarce taxpayer dollars go to transparent and accountable governments.

The United States also needs to work with others in order to offer a more varied menu of democracy assistance to the increasingly diverse set of democracies and political cultures in the hemisphere. Latin American governments like Brazil, Chile, Mexico and Uruguay should step up to the plate by devoting their own resources and expertise to this joint venture. They should create a unit within their foreign ministries dedicated to democracy and human rights concerns and provide training and education for their diplomats—for example, on how they can help civil society play a positive role in democratic development.

### **Hemispheric Opportunity**

The Obama Administration, were it seriously to embark on a more multilateral course, should consider new avenues for collaboration on both the diplomatic and development assistance aspects of a comprehensive democracy assistance strategy.

- **Depoliticize democracy assistance.** One of the key lessons learned from the Bush Administration's experience is to avoid overtly picking winners and losers, a tactic proven to inflame anti-U.S. sentiments. President Obama has an opportunity to assert his administration's bona fides in this area by making clear at the Summit of the Americas that the United States will refrain from interfering in internal elections and work constructively with whomever wins free and fair elections and respects the fundamental tenets of the Inter-American Democratic Charter. In addition, when President Obama and members of his Cabinet visit countries in the region, they should meet with relevant political leaders of different parties and sectors as a way to convey the United States' intention to work with the legitimate democratic leadership of the country broadly speaking, and not personalize relations with just the head of state.

Another way to depoliticize democracy aid is to move funding for civil society from the State Department to the National Endowment for Democracy (NED) and its affiliates. Giving the State Department the money to run democracy programs runs the risk of politicizing what should be, to the extent possible, a nonpolitical foreign assistance endeavor. Receiving official assistance from the U.S. government, particularly under rules that require them to display the USAID logo on all their materials, makes them vulnerable to charges of being agents of a foreign government. This is no way to frame a democracy assistance strategy. The NED, an independent nonprofit organization that has enjoyed bipartisan support from its birth in the Reagan era, is a relatively small and nimble grant-making entity whose mission is sustaining democracy and human rights advocates around the world.

Democracy funds directed to foreign government and quasi-government entities, on the other hand, can continue to be funded through official State Department and USAID channels.

- **Strengthen the Organization of American States and its Inter-American Democratic Charter.** The OAS and its Inter-American Democratic Charter need an infusion of new commitment and consensus building to function well as diplomatic tools for democracy. Notably, the charter's provisions concerning responses to democratic crises require a member state to initiate a request for assistance, making it less likely to be invoked. In fact, these provisions have never been used, despite abundant opportunity to do so since the charter was adopted in 2001. The charter also limits the secretary general's power to take the initiative to investigate deterioration in democratic standards only to situations involving "an unconstitutional alteration of the constitutional regime." Yet many instances of democratic backsliding, such as the trend of rewriting constitutions to give presidents more powers and to weaken or eliminate term limits, do not rise to this level, leaving the OAS impotent to act. One way to generate momentum for greater activism on the part of OAS states is to support the Friends of the Inter-American Democratic Charter, a panel of prominent figures from throughout the hemisphere which serves an unofficial monitoring and advisory role for the secretary general aimed at preventing tense situations from erupting into conflict.
- **Internationalize democracy assistance.** The United States seriously needs to ramp up its investment in multilateral mechanisms of democracy assistance. Unfortunately, the United States has inadequate and insufficient tools in the toolkit, preferring instead to

conduct most of its democracy assistance through bilateral channels. Yet a good model for internationalizing U.S. government funding for democracy assistance exists: the United Nations Democracy Fund (UNDEF). Since its establishment in 2005, UNDEF has received donations and pledges totaling over \$98 million from a wide range of countries, including India (\$20 million), the United States (\$25 million), and Japan (\$20 million), with smaller donations from countries like Chile and Peru. The UN has the legitimacy to be a credible defender of the universal nature of democratic and human rights principles. Congress should continue regular and substantial funding for this account and other Latin states should contribute.

UNDEF can serve as a model for U.S. democracy assistance funding in the Latin American and Caribbean region. An Inter-American Democracy Fund, housed at the OAS and funded by the United States, Canada, the European Union, its member states, and, most important, countries from Latin America, would be a regional vehicle to address regional problems. It could focus not only on supporting civil society monitoring and participation but also on developing independent media, legal reform, and civic education. Strengthening political parties as credible agents of political change with policy platforms that can be translated into concrete government programs should also be a priority. It would be a practical manifestation of the region's commitment to the principles of the Inter-American Democratic Charter and avoid the "regime change" taint associated with past U.S. government funding. Finally, the Obama Administration and Congress should remain committed to the Millennium Challenge Account and seek to transform it into a multilateral mechanism to incentivize good gov-

ernance. The program delivers significant levels of development aid once a state has met the criteria of “governing justly” and fighting corruption and requires consultation with its citizens on priority projects.

As Latin American countries look forward to their bicentennials of independence, the United States should join them in celebrating our shared heritage as democratic societies by funding new multilateral projects for building accountable, transparent, and participatory governance.

### Want to Know More?

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The UN Democracy Fund, <http://www.un.org/democracyfund/index.htm>



ERNESTO TALVI AND ALEJANDRO IZQUIERDO

## SET THE RIGHT AGENDA

### LATIN AMERICA AND MULTILATERAL INSTITUTIONS

#### The Context

The predominant view on the region is that Latin America entered into the global financial crisis with very strong economic fundamentals (low inflation, twin surpluses, a sound banking system and large international liquidity) to be able to withstand a worsening of external conditions. Moreover, and in contrast to previous episodes of global financial turbulence, the region responded with countercyclical monetary and fiscal policies to mitigate the impact of adverse external shocks.

Under the assumption that the U.S. recession bottoms out in the first half of 2009 and the economy starts a relatively strong recovery thereafter—the so called V-shaped recovery—as the U.S. government and markets are currently expecting, this predominant view is essentially correct. A V-shaped recovery in the U.S. will improve the outlook for industrial country growth, commodity prices and global financial conditions, key external drivers of Latin America’s economic fluctuations. Thus, the impact of the global crisis on Latin America is likely to be severe but short lived and limited to the real sector. Liquidity crises and economic collapses will be largely prevented. In such a scenario, Latin America will come out of the woods relatively unscathed.

So far events appear to validate this view. After all Latin America has withstood the crisis without major financial turbulences. Currencies have depreciated, stock prices have collapsed and growth forecasts have been revised substantially downward in the aftermath of the Lehman Brothers demise, but generally speaking the region has avoided (as of yet) currency crises, debt crises and bank runs so typical of previous episodes of global financial turbulence, such as those in 1982, 1998 and 2001.

#### The Challenge

The V-shaped recovery in the U.S. might well be the case. However, looking at the evidence of severe financial crises suggests that they tend to be deeper and last longer than run-of-the-mill recessions. On average, during these episodes it takes about four years for output to return to pre-crisis levels.

Therefore, Latin American policymakers and multilateral institutions should preemptively prepare for a less favorable scenario in the U.S.: a more protracted L-shaped recovery consistent with the evidence on financial crises. An L-shaped recovery would mean a peak-to-trough contraction that is identical to the V-shaped recovery scenario but results in: 1) a slower convergence to pre-crisis output levels for the U.S. and other industrial

countries; 2) a slower recovery in commodity prices to pre-crisis levels and 3) a slower improvement in credit market conditions, as reflected in higher costs and shorter maturities for emerging markets (EM).

If this scenario—which is short of catastrophic—were to materialize, we would see a large deterioration in the region's outlook from the more rosy perspective initially outlined. Instead, the main predictions for Latin America under this alternative L-shaped recovery scenario in the U.S. are as follows:

First, Latin America would experience negative growth in 2009 and 2010 and average growth will be close to zero in the next five years, indicating that Latin American policymakers and multilateral institutions should prepare for tougher economic conditions in the years to come.

Second, although the region starts from a strong fiscal position—a surplus of 2 percent of GDP in 2007—the combination of declining economic activity, the collapse in commodity prices and the rise in financial costs, will lead to a gradual, persistent and large deterioration in the overall fiscal position that peaks at around 5 percent of GDP in 2011. Fiscal deterioration would result in an exponential dynamics of public debt, which almost doubles to 50 percent of GDP in 2013, even under very conservative assumptions on primary expenditures.

Third, although initial conditions of banks in the region are sound—low delinquency rates and high loan loss provisions-- the decline in economic activity will lead to a gradual, persistent and relatively large deterioration in bank's loan portfolio. Non-performing loans will rise to 10 percent in 2011 and loan loss provisions would be completely depleted, resulting in capital losses of around 35 percent.

Forth and more importantly, international liquidity ratios (ILRs) —defined as the ratio of international reserves to short-term public debt—will gradually evolve towards critical thresholds in 2010, and these thresholds have proven to be robust predictors of financial crises. Amortizations that coming due and growing fiscal deficits would need to be financed under very precarious credit market conditions, thus shortening the maturity of outstanding stocks of debt and deteriorating ILRs.

A key feature of this alternative scenario is that the deterioration in fundamentals, i.e., fiscal, banking and liquidity indicators, is gradual and therefore problems may not become evident until it is too late. Against this backdrop, proposals to pursue active countercyclical fiscal policies must be taken with a grain of salt. These policies could easily result in even larger fiscal deficits, ballooning public debts and a more rapid deterioration in ILRs, undermining credibility and increasing the likelihood of a liquidity crisis, even if fiscal deficits are fully financed by multilaterals. Should this be the case, the intended effects of expansionary fiscal policies will never materialize and could actually turn out to be counterproductive.

The challenge for Latin American policymakers and multilateral institutions is thus to anticipate gathering problems early on, to act in a timely fashion, and to design a set of policies that will prevent countries from entering into financially fragile territory that might expose them to a liquidity crisis and a major economic collapse.

### Hemispheric Opportunity

In the worst crisis in almost 80 years, when credit markets essentially ceased to function among private agents, the U.S. government enjoyed preferential financial conditions. This phenomenon has allowed the U.S. government to *de facto* act as an intermediary between private

agents unwilling to lend to each other and to pursue at very low financing costs expansionary fiscal policies.

In contrast, when EM corporations lost access to credit markets, financial conditions for EM governments deteriorated significantly. Thus, the ability of EM governments to act as intermediaries for private agents and to finance expansionary fiscal policies without recourse to their international reserve stock is very limited and such intervention would entail a deterioration of ILRs.

Precarious access to credit markets for many EM governments calls for multilaterals to step in and play a key role for EM, akin to the role that credible governments, such as the U.S. government, play domestically.

However, full support by multilateral institutions to ensure both the financing of expansionary fiscal programs and of stocks of public debt coming due, does not appear to be either politically or financially feasible. This kind of support for 2009 and 2010 will put the bill in excess of \$600 billion for the seven major Latin American countries alone.

The natural question then is how to target limited resources to get more “bang for the buck.” The likely evolution of the region’s fundamentals under moderately less optimistic scenarios and the key role of liquidity considerations under precarious credit market conditions, points in the direction of switching the emphasis from traditional expansionary macro policies of uncertain and potentially counterproductive effects, to policies oriented towards reducing the likelihood of a liquidity crisis and a severe economic contraction. In our view, this should be the overriding goal of policy design.

This framework suggests a set of key policy principles that policymakers should focus on during the Summit of the Americas and beyond:

1. **Strengthen the role of multilateral institutions.** Multilateral support will be vital under financial precarious access to credit markets, the more so the more pronounced is the global downturn and the tighter international credit market conditions for emerging economies.
2. **Move away from short-term financing.** Multilaterals should avoid short-term emergency financing and only consider medium to long-term financing in order to partially “complete” markets in terms of maturities, ensuring that financial precarious access to credit markets does not put countries in a liquidity collision course.
3. **Redefine the emphasis of multilateral support.** Multilaterals should not only provide medium to long-term financing for fiscal stimulus –when fiscal sustainability is not at stake– but more importantly, they should provide for long-term refinancing of maturing debt obligations.
4. **Ensure that countries work towards sustainable fiscal policy.** Multilateral support that relaxes the constraints on liquidity ratios, may tempt governments to follow laxer fiscal policies that could eventually lead to sustainability problems. Thus, support should be complemented with incentive-compatible conditionality, ensuring a gradual convergence to sustainable structural fiscal positions.

Sustaining global economic activity through expansionary fiscal policies is more of a task left to developed countries and to a handful of emerging economies, where governments remain creditworthy to perform borrower-of-last-resort functions and liquidity issues are not at stake. Stimulus packages that compromise financial stability in the periphery and potentially lead to liquidity crisis and economic collapses would not be much of

a contribution to sustaining global demand. Ironically, avoiding those extreme events could turn out to be the quintessential countercyclical policy in Latin America.

### Want to Know More?

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LEONARDO MARTINEZ-DIAZ

## 4 MAKE TRADE A PRIORITY

### The Context

The global economic crisis poses a significant threat to the global and hemispheric trading system. Slumping demand in the United States has directly hit the export sectors of many Latin American economies, and the collapse in commodity prices has dealt a considerable blow to the hemisphere's commodity exporters. As terms of trade and current accounts deteriorate across the region, many countries are considering—and sometimes adopting—protectionist measures. The hemisphere's relatively open trade regime, which was running out of steam even before the crisis hit with full force, is not only at a standstill, but is danger of breaking down.

Despite this risk, trade was largely left off the agenda at the Summit of the Americas. The Summit's March 26 Draft Declaration of Commitment makes only one substantive reference to trade, in which leaders recognize “the positive contribution of trade among our nations in the promotion of growth, employment and development.” Leaders also agree that they will “continue to insist on an open, transparent and rules-based multilateral trading system.” This article argues that the hemisphere's leaders need to be much more pro-active on the trade front, and that they should use the summit and other hemispheric forums to coordinate regional policies that

can help preserve—and perhaps later advance—the open trading regime.

### The Challenge

Hemispheric trade boomed in the years before the crisis. Between 1996 and 2007, the cumulative growth of U.S. exports to Latin America was higher than to all other regions and to the world as a whole. While Mexico was the most important U.S. trading partner in the region, U.S. trade with Argentina, Brazil, Colombia, and Peru, was growing at double-digit rates. Thanks in large measure to the commodity-price boom, terms of trade gains led huge cumulative trade surpluses for Latin American exporters in 2004-08—some \$500 billion above what it would have been had export prices remained flat. This growth in trade took place even while hemispheric trade talks stagnated; the region's trade deals in the 2000s were mostly bilateral and relatively small in terms of trade volumes.

The crisis has led to an abrupt deterioration of the trade balance in most countries in the region. After more than five years of booking trade surpluses, Brazil reported a trade deficit in December and is expected to run a current account deficit of over \$30 billion in 2009. Mexico, Latin America's second-largest economy, is also seeing

its current account deficit grow quickly; the IMF expects it to run a current account deficit of about \$25 billion next year. Hardest hit by the U.S. recession will be those countries that trade most intensively with the United States, especially Mexico, Venezuela, and Ecuador. Latin America's terms of trade gains are deteriorating as commodity prices drop, though should remain at relatively high levels in 2009, according to JP Morgan analysts. Countries where commodities represent a very significant fraction of total exports will also feel the global recession most intensely. These include Venezuela, Peru, Chile and Ecuador.

As the crisis begins to hit the productive sectors of the region's economies, resulting in higher unemployment, many countries are contemplating, or have already implemented, protectionist measures. Ecuador has adopted some of the most aggressively protectionist responses, raising tariffs between five and 20 percent on 940 products. In November, Brazil and Argentina proposed raising Mercosur's common tariff, but after Paraguay and Uruguay rejected the measure, Argentina unilaterally imposed tariffs on a wide range of goods, including food, farm machinery, steel, iron, textiles, and shoes.

In Brazil, the government attempted to introduce widespread licensing arrangements and import controls, but opposition from the private sector has led to a temporary standstill on these protectionist measures. Meanwhile, Mexico imposed tariffs on \$2.5 billion of U.S. goods in retaliation for a ban of its trucks on American roads. While this is only the latest episode in a long-running trade dispute, it has not helped improve the trading climate. Overall, protectionist measures in the region will likely focus on labor-intensive sectors, as governments try to contain unemployment and its political and social ramifications.

## Hemispheric Opportunity

Working together with the three Latin American countries in the G-20—Mexico, Brazil, and Argentina—the United States should work at the hemispheric level to help preserve the hemisphere's open trading system. At a minimum, the hemisphere's trading partners should consider the following measures:

- **Make a public commitment.** Going beyond the language currently agreed, leaders should follow the initiative of the G-20 and make a strong commitment to free trade, pledging to avoid protectionist measures as much as possible.
- **Increase trade finance.** Trade finance is drying up in the region. In Brazil, which accounts for more than 40 percent of regional trade financing, banks are renewing just half of existing trade financing lines. Mexico and Argentina are facing similar financing problems. The Inter-American Development Bank recently raised the limit of its Trade Finance Facilitation Program from \$400 million to a maximum of \$1 billion, but much more can be done if the Bank's largest shareholders are willing to push this envelope further. The U.S. and other mature economies should also encourage their export credit agencies to support their own countries' financial institutions to keep trade lines open in Latin America.
- **Beef up trade surveillance.** Member countries are already required to report protectionist measures to the WTO. However, a regional mechanism should be developed to keep track of tariff and non-tariff trade restrictions and to provide regular, publicly-available analysis of new restrictions and their economic and employment impact. By making these restrictions and their impact transparent, peer pres-

sure could be brought to bear to limit protectionist moves.

- **Aid for trade.** Several low-income Latin American countries receive trade-facilitation economic assistance from bilateral and multilateral donors. Among other things, this assistance finances projects to help bring products to foreign markets and to upgrade customs systems. Where possible, disbursement of this assistance should be expedited.
- **Renew trade preferences for Bolivia.** In October 2008, the Bush Administration suspended Bolivia's trade privileges, excluding the country from the 1991 Andean Trade Preference Act, which affords some South American countries lower tariffs on certain exports to the United States. As a result, U.S. officials estimate that between 20,000 and 30,000 Bolivians will lose their jobs. Restoring these preferences would demonstrate the capacity of open trade to help some of the poorest people in the hemisphere during a major global recession.

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DIANA VILLIERS NEGROPONTE

## REINVIGORATE NAFTA

### The Context

Fifteen years after the signing of the North American Free Trade Agreement (NAFTA) and with growing protectionist tendencies among the three countries there is a risk that NAFTA could become the European Free Trade Arrangement that withered to nothing in the 1980s. NAFTA was bold in its vision of opening markets and offering prospects for closer cooperation between Canada, Mexico and the United States, but the events of 9/11 have changed the vision that a North American community could emerge. Trade among NAFTA has quadrupled since its inception in 1994, but could have been stronger. Since 2001, the U.S. has focused more on thickening border crossings to keep out terrorists than on facilitating trade and the passage of people. We have succeeded in creating integrated production chains and markets for automobiles; logistical chains that should now be used for other products, including knowledge.

A serious trade spat between the U.S. and Mexico over the objection to Mexican trucks using U.S. roads and Mexican retaliatory measures indicates growing protectionist tendencies between both countries. NAFTA has lost its gild edge and those who sought greater integration on issues beyond trade have become disillusioned. The question arises as to whether we leave NAFTA to

tariff minders and truck inspectors or whether we invigorate it by enhancing cooperation on necessary multi-national concerns, such as energy, the environment, infrastructure, education and health policy.

### The Challenge

Since its foundation in 1994, non-oil exports have grown four-fold and the stock of foreign direct investments has doubled among NAFTA partners. In 2007, Canada exported close to \$26 billion worth of goods to the U.S. compared to \$18.6 billion from Mexico, accounting for approximately 82 percent of each countries total trade. In 2001, the U.S. exported \$3.6 billion worth of farm and food goods to Mexico rising to \$10.8 billion in 2006. U.S. exports of similar goods to Canada increased from \$4.2 billion in 1990 to \$11.9 billion in 2006.

This growth has been accompanied by increasing demand for energy, for the most part based on increased consumption of fossil fuels. But this growth was accompanied by increased emissions of greenhouse gases (GHG), which measurably damaged our biosphere. Until recently, we could dream of both economic growth and the discovery of alternative fuels to contain GHG, but skyrocketing prices in grains and fuel were followed by a credit crisis among major U.S. financial

institutions with serious repercussions for the economy in both Canada and Mexico.

The financial and economic crisis has resulted in a 30 percent depreciation of the Mexican peso and 16 percent depreciation of the Canadian currency against the U.S. dollar. Trade flows are anticipated to decrease significantly in 2009. Unemployment is rising and underemployment has risen to the level that families are cutting back on food and clothing. Poverty rates, measured by the income necessary to buy a basket of staple food items, have increased sharply in both Mexico and the U.S. (Canada does not have an official poverty line and the calculation is based on a “low income cut-off” figure.) In January 2009, remittances, the life blood for many rural communities in Mexico fell between 11-13 percent from the previous year, reducing the flow of private funds to individual families, as well as poor communities. NAFTA was created to expand trade, but more is needed as demonstrated by the labor and environmental Annexes. We should now consider expanding cooperation further to encompass the challenges presented by energy, infrastructure, education and healthcare.

### Hemispheric Opportunity

The summit meeting in Trinidad and Tobago presents an opportunity to make critical commitments: protect the social wellbeing of the poorest citizens and spur economic growth through counter-cyclical stimulus projects. In this respect, the leaders should commit to re-invigorate NAFTA as part of a hemispheric effort to stimulate trade and deter protectionist measures.

- **Trade.** Joint commitment to abide by the NAFTA treaty is needed as the pressure to protect domestic industries and jobs grows. Canada provides a good example with its decision to reduce tariffs on specified goods. The U.S. should not revoke the truck-

ing agreement with Mexico, but rather extend the pilot program and gradually expand the range for Mexican trucks within a mutually agreed regime.

- **Energy.** Joint investments in liquid natural gas (LNG) as well as nuclear, wind, solar and bio-fuels to provide greater security from global price hikes and shortages, as well as to meet the additional 25 percent demand for energy expected by 2025. Existing infrastructure is designed to carry petroleum, and we must jointly invest in new pipelines to transport alternative forms of energy.
- **Environment.** Our shared responsibility to reduce GHG and meet the challenges posed by the heating of our planet should be engaged on a regional basis. A North American GHG exchange strategy could ensure that the U.S. has access to Canada’s energy sources in exchange for offsets for GHG created by their development. Mexico, as the seller of the offsets, could then develop the infrastructure to clean its energy, transportation and industrial sectors. Mexico can leverage the offset revenues to create President Calderon’s Green Fund. This can be used to reverse deforestation and re-establish Mexico’s rich biodiversity. The combination of carbon trading, capture and offsets has potential to impact positively current climate change trends, as well as establish a model for other regions in the Americas.
- **Infrastructure.** The removal of protracted regulatory processes at both federal and local level could encourage the creation of an integrated, multi-modal transportation plan and North American infrastructure model based on private/public ownership. This could help to ensure 24/7 cross-border gateways, toll roads and corridor highways. Planning requires local community input and the example of the Sonora/Arizona partnership is noteworthy.

Furthermore, we need a North American cyber-port that all three nations can access to create a seamless processing of goods and people across our borders.

- **Education.** Opportunities exist throughout NAFTA to increase the exchange of knowledge, faculty and students. Economic resources now exists at a number of colleges to permit people, without the capacity to actually travel, to exchange ideas and engage in more robust teaching, as well as knowledge and policy transfers. We can provide the means to more effectively inform public debates and educate key constituencies.
- **Health care.** Revise national health plans, such as Medicare, so as to grant access to approved and licensed health facilities throughout the NAFTA area. This would enable the elderly to take advantage of devoted nursing skills, good medical treatment and warmer weather in Mexico, as well as reduce costs for patients in northern climates.

Broadening cooperation beyond trade, labor and the environment permits us to envisage a knowledge based NAFTA community rather than a factory based production chain. Co-operative projects among the private sector and between metropolitan areas should be given the opportunity to develop ideas and projects with the support of Federal governments.

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JOHN DEUTCH

## PARTNER TO BUILD AND SUSTAIN ENERGY SECURITY

### The Context

Each nation in the Western Hemisphere seeks to secure the energy future of its citizens. While natural energy resource endowments and energy demand patterns vary widely throughout the hemisphere, geographical proximity creates important interdependence. Normal economic forces naturally encourage mutually beneficial arrangements within the region, but it is quite certain that concerted action by governments can facilitate the potential economic benefits and social welfare from cooperation.

### The Challenge

The challenge for the Fifth Summit of the Americas is to identify constructive steps towards “energy security” and “environmental sustainability” that are central to the summit’s theme of “Securing our citizens’ future.” There are two overriding, interrelated challenges: securing stable energy supply and avoiding climate change. On the one hand, it is unrealistic and unnecessary to seek a comprehensive energy plan for the region. On the other hand, hemispheric cooperation to adopt market mechanisms and new technologies that encourage efficient energy use and a shift away from carbon emitting fuels will benefit all countries in the region. But

because the size of the energy infrastructure is so massive, change requires tremendous investment that takes time and the sustained attention of governments. Thus, it is wise to begin with the selection of a few subjects for cooperation.

### Hemispheric Opportunity

- **Establish a hemispheric group to address climate change.** Climate change is the paramount global energy issue. Avoiding the adverse consequences of climate change requires an agreement to cap emission of greenhouse gases by both developed and developing countries. Although a global solution is necessary, a Western Hemisphere agreement would be a significant step forward. It is very unlikely that Western Hemisphere countries could agree on a policy to stabilize greenhouse gas emissions. But more modest goals such as an agreement that Western Hemisphere nations should not subsidize electricity or motor gasoline and move to global market prices would contribute greatly to reducing energy demand and hence limiting carbon dioxide emissions.

There are several reasons that recommend a serious, expanded, hemispheric deliberation on cli-

mate change. First, this issue is, after all, the greatest environmental threat to the future wellbeing of the planet. Second, expansion of electricity generating capacity in every country is being slowed by the uncertainty about future emission regulations. At a minimum, the hemisphere should agree on the quality and extent of reporting of emission measurements and energy statistics. Further, environmental policies adopted in one country will affect its neighbors.

Perhaps the most important reason to deepen the hemispheric dialogue on climate change is that the larger hemispheric nations, notably Brazil and Mexico, should want Washington to understand their interests and potential flexibility. Latin America faces the danger that United States participation in a global dialogue focusing on reaching a climate change understanding with China and India could effectively present countries in the hemisphere with a *fait accompli*. And there is the small but interesting possibility that engagement in the hemisphere would reveal a way forward that would be influential in making progress globally. The hemispheric climate dialogue could be recognized as subsidiary body within the structure of the United Nations Framework Convention on Climate Change.

- **Encourage biofuels production and eliminate the U.S. import tariff of 54 cents/gallon on ethanol imported for fuel use.** Biofuels is a renewable energy source of special importance in the Western Hemisphere. Biomass is a unique renewable energy source, because it leads to liquid fuel that can displace oil. Some energy models project worldwide production of biofuels of 20 million barrels of oil equivalent per day by mid-century. There is con-

siderable biofuels production in the hemisphere, notably in Brazil and the United States. The climate and land use in the Caribbean and Central America offers the potential for expansion for biofuel production to countries that lack any domestic hydrocarbon reserves.

It is technically possible to use cellulosic feedstock as a source of liquid fuel, but advances are needed to demonstrate economic attractiveness. Pursuing alternative technical pathways (including algae) could answer the two growing criticisms of current ethanol production: (1) use of a biomass feedstock for biofuels production that does not compete with food crops and (2) higher yields of liquid fuel from biomass with reduced input of natural gas or petroleum fuel for cultivation, conversion, and separation.

The United States currently has a 54¢ per gallon tariff on ethanol imports destined for fuel use. This protectionist tariff restricts lower cost ethanol produced in Brazil from entering U.S. markets and artificially maintains high domestic U.S. ethanol and corn prices. The tariff should be removed. In the longer-run, because of competition for food production, corn and sugar biofuels feed stock should be replaced by cellulosic biomass. Hemispheric cooperation on cellulosic biomass technology development, both with regard to more productive biomass production and more efficient biomass conversion would be of great value to the region.

- **Establish a solar and renewable energy laboratory for the hemisphere.** The Caribbean and Central America have extremely attractive levels of solar insolation, but the region also contains many countries that are poor and completely dependent on oil imports. Despite much talk and a considerable

number of demonstration projects, there has been little penetration of solar technology into the region beyond solar hot water heating. Neither the private sector nor government sponsored development organizations have found effective mechanisms to create new solar-based technologies that are both affordable and appropriate for application in poor rural and urban communities that lack public services.

The conventional approach to renewable energy development is for development entities, such as USAID or the UNDP to fund local projects on a case-by-case basis. The virtue of this approach is that project execution is the responsibility of a local authority that understands local conditions. However, each project is unique, project evaluation is mixed or non-existent, there is no effective learning transferred to new situations, and, in some cases there is local corruption.

An alternative approach is for the Western Hemisphere led by the United States and Canada, to establish a “Renewable Energy Laboratory of the Americas” for an initial 10-year period, at a level of \$200 million per year. The purpose of this laboratory is to develop a suite of new affordable appropriate renewable technologies, testing and documenting these systems, and demonstrating them in cooperation with local authorities. This new central organization would have the responsibility to accumulate transferable knowledge. The laboratory should be located in Central or South America, in order to encourage better exchange of technical personnel and technology transfer.

- **Encourage peaceful uses of nuclear power.** Concern about the risks of global warming has revived interest in commercial nuclear power around

the world. Greater economic growth and, in particular, growth in electricity demand is projected for developing economies of Latin America and the Caribbean. Expanded deployment is most likely to take place in Brazil, Mexico, and Argentina but could also occur elsewhere, such as in Chile and Colombia.

If nuclear deployment increases significantly during the next decades, Latin American nations will want to assure effective safety regulation, and waste management practices and low cost generating cost. Cooperation between United States and Canada with their large nuclear industry, more developed regulatory structure, and government laboratories could be of benefit to all nations in the region. Hemispheric engagement on proliferation issues involving fuel cycle activities and international supervision would also be helpful.

- **Integrate energy infrastructure and deal with resource nationalism.** The anticipated growth in energy consumption will require significant investment to replace and expand the existing energy infrastructure capital base in the following areas: (1) electricity generation, transmission, and distribution; (2) natural gas pipelines and LNG terminals for liquefaction and re-gasification; and (3) petroleum production (especially in the deep off-shore), refining and distribution. The efficiency of this energy infrastructure depends on the way the infrastructure is designed, built and operated. Cooperation between firms and harmonized regulation among jurisdictions capture benefits for each nation and every consumer in the hemisphere.

North America has experienced significant integration in its energy infrastructure over the past two decades. The North American natural gas pipeline

system has become highly interconnected as a result of commercial initiative supported by regulation. Progress has been made on the integration of the electricity grid, but sitting issues hamper much needed new investment. Most experts believe that a more intelligently managed and rationally designed smart network could realize significant improvements in efficiency of electricity distribution.

In contrast to progress in North America, political turmoil has slowed the development of a regional distribution system in South America. The most egregious example is Bolivia's reluctance to participate in a regional natural gas transportation system that its location and resource base makes potentially beneficial. An integrated natural gas pipeline system encompassing Venezuela, Brazil, Bolivia, Argentina, Chile, Peru, and Ecuador would have important regional economic benefits, but issues of resource nationalism, state ownership, and regulatory differences currently are precluding progress.

The North American experience should be an important example to Latin America of the benefits that accompany integration. While direct involvement by the U.S. government is unlikely to be effective in encouraging integration, revitalization of the Western Hemisphere energy ministers meetings could play a constructive role by discussing possible steps forward.

The magnitude of anticipated energy infrastructure investments in Latin America, as in other regions, is spectacular and will require and surely attract capital from many places. A significant portion of the financing can and should originate in the United States, although it is noteworthy that Europe and Asia, including China, are eager to gain access to the Latin American energy infrastructure market.

### Want to Know More?

"Rethinking U.S.-Latin America Relations: A Hemispheric Partnership for a Turbulent World," Report of the Partnership for the Americas Commission, The Brookings Institution (November 2008).



VANDA FELBAB-BROWN

## STRENGTHEN HUMAN SECURITY

### The Context

Despite the ever-growing intensity of interactions between North and South America, crucially facilitated by immigration to the United States from the South, U.S. national security policy in the Southern Hemisphere has been increasingly at odds with the security preoccupations of the Latin American governments and populations. While the United States has focused on keeping unfriendly actors out of power in Latin America and illicit flows from the region out of the United States, the governments and publics in Latin America are primarily concerned with human security issues. A joint effort at multidimensional state strengthening in Latin America, however, can bring the two perspectives into congruence and address security concerns of both the United States and Latin American countries.

The U.S. Monroe Doctrine established the principle of keeping other great powers from developing spheres of influence in the Americas. During the second half of the 20<sup>th</sup> century, the dominant U.S. effort was to prevent the spread of Soviet and Cuban influence in the region and government takeovers by leftist movements and insurgents. The end of the Cold War resulted in the replacement of the traditional “undesirables” to be kept out with new ones—drugs, illegal immigrants, and refugees. During the Bush administration, two new real and

potential threats were added: Venezuela’s anti-American ideological project, *Bolivarian socialism*, and global jihadi terrorists.

Yet with the exception of Colombia, who latched on to the U.S. Global War on Terror, this agenda has generated little resonance in the region. For example, although the vast majority of governments cooperate with the U.S. war on drugs, many disagree with the dominant emphasis on illicit crop eradication. Instead, Latin Americans emphasize a long list of socio-economic problems, such as poverty and hunger, the lack of development, and rising street-level crime – in other words, human security.

### The Challenge

Human security includes not only the physical safety from violence and crime, but also economic safety from critical poverty, social marginalization, and fundamental underprovision of elemental social goods, such as infrastructure, education, and health care. Chronically, Latin American governments have been lacking in the provision of all three.

Despite the compliance of Latin American governments with the U.S. counternarcotics policies, street-level crime and public insecurity have increased throughout the region. To an unprecedented degree, ordinary

people in the region complain about living in fear of crime. With the exception of Colombia, criminal activity throughout the region has exploded. Doubling since the 1980s, homicide rates in Latin America are among the highest in the world. Kidnapping is also frequent. Well above 50 percent of the approximately 7,500 worldwide kidnappings in 2007 took place in Latin America (*El País*, 17/2/2008). Overall, the rates of violent crime are six times higher in Latin America than in the rest of the world (Jorge Sapoznikow et al., 2000).

Illicit flows, such as drugs, do greatly exacerbate street-level crime and the day-to-day insecurity of ordinary citizens. They also pose serious threats to national governments in source and transit countries, viz., the drug violence in Mexico. Corruption, fueled by illicit trade, frequently affects not only the top levels of the government, but also corrodes the entire public sector, seriously undermining law enforcement and the judiciary throughout the system.

But from the perspective of many in Latin America, the principal threat is not the cultivation of illicit crops as the source of crime and corruption, or even other illicit flows per se. Many in Latin America do not have the ability to participate in formal legal economies. Hundreds of thousands of people across the Andean region cultivate coca and other illicit crops because they do not have legal opportunities. In sprawling urban slums, the majority of the population participates if not in outright illegal economies, at least in informal ones outside the purview of the state because the state is absent and the population's access to the legal economy is limited (and sometimes also because state regulations and taxation are too onerous). Many resent policies designed to suppress such illicit economies, like the cultivation of illicit crops, because they face a critical crisis of subsistence in their absence.

Hence, the populations do not perceive forced eradication to be an appropriate policy. Indeed, such suppression policies without a multifaceted extension of state presence, including the provision of economic opportunities, frequently induce marginalized population to transfer their loyalties to non-state actors, such as insurgents, maras, and even drug dealers, who oppose the state and protect illicit economies from state actions.

The global economic crisis can further exacerbate the problem of illicit economies in Latin America. It can swell the numbers of those dependent on illegal livelihoods and at the same time limit the state's resources for addressing illegal economies through a multifaceted approach that includes not only law enforcement, but also building economic and social opportunities for marginalized populations.

### Hemispheric Opportunity

Despite the global recession, changes in the political landscape in Latin America and in the United States provide unique opportunities for strengthening human security in the Hemisphere. The new Obama administration has already indicated that targeting inequality and poverty will be a critical priority in the region. Meanwhile, many of the left-leaning governments in the Hemisphere, with Brazil as a leading example, have accepted that the state has a responsibility for the social advancement and empowerment not only of the elites, but also of the marginalized populations.

The Summit of the Americas' agenda of critical policy initiatives should include:

- **Expansion of state-strengthening efforts that improve public safety on the Latin American street.** The United States should continue to provide military assistance for counternarcotics operations, such

as interdiction, and for developing intelligence-sharing among the governments in the Americas for counterterrorism and anti-crime purposes. Building a strong collaborative relationship with Mexico as well as multilateralizing the counternarcotics effort in Mexico should be at the forefront of the effort. But the effort to strengthen public safety must extend beyond the front-burner issues and must consist of sustained and systematic efforts to improve and extend the regular law enforcement apparatus throughout the Hemisphere to provide effective and accountable rule of law to the entire population.

- **Improving the judiciary throughout the region.** Reforms and expansion of law enforcement and justice need to be integrated. A greater capacity on the part of the state in Latin America to deliver justice and the rule of law to the populations will not only improve their lives and increase accountability, but it will also fundamentally enhance the connection between the individual and the state.
- **Encouraging and extending economic development of the region not only through steadfast promotion of free trade, but also through determined effort to assist national governments with the development of socioeconomic periphery areas.** As the previous two decades have shown, free trade on its own does not guarantee that unskilled, poor, marginalized populations in the rural peripheries and urban slums can participate in the global market and reap benefits from it. The United States and Latin American governments should pay greater attention to rural development in the Hemisphere as well as to the integration of urban peripheries into the productive and legal realm of society. If greater segments of the populations are capable of plugging into the global legal economy and see their socioeconomic condition improve, they will be both less

dependant on illicit economies and more willing to cooperate with efforts to reduce them.

Such strengthening of their human security will in turn enhance the national security of Latin American countries and help in U.S. efforts to mitigate dangerous transnational flows.

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KEVIN CASAS-ZAMORA

## REVERSE THE CRIME EPIDEMIC IN LATIN AMERICA AND THE CARIBBEAN

Crime is one of the most pressing issues that countries in Latin America and the Caribbean (LAC) face. Criminal violence and the widespread fear that comes with it have become part of daily life throughout the region. While it is true that crime is a global pandemic, it is equally clear that the dimensions of the phenomenon in LAC are as unique as profound are its consequences. In LAC, citizen insecurity has become not just a significant obstacle for the pursuit of human development, but also a clear danger for democracy.

### The Context

Crime levels in LAC are the world's highest. In 2000, the last year for which comparable data exists for all regions, LAC's murder rate was 27.5 per 100,000 people, three times as much as the rate for the world as a whole and well above that of any other region. In the course of the present decade alone, 1.2 million people in LAC have lost their lives as a result of crime.

Homicides are merely the most visible consequence of the region's crime epidemic. Every year, approximately 200 million people in the region—a third of its population—are victims, either directly or through their immediate family, of a criminal deed. In addition to this, the region is host to many other manifestations of vio-

lence whose magnitude can only be guessed. Thus, the number of youth gang members in the northern Central American countries, a significant factor in the terrible violence experienced by the latter, hovers 100,000 according to some estimates. Moreover, it is presumed that more than 50 percent of extortive kidnappings in the world take place in Latin America.

The economic consequences of crime for LAC are staggering. The most rigorous estimate of direct and indirect costs of crime for the region measured them, a few years ago, at 12.1 percent of GDP or \$250 billion annually, a sum larger than Argentina's economy (Londoño, Juan Luis; Gaviria, Alejandro & Guerrero, Rodrigo [2000]; *Asalto al Desarrollo. Violencia en América Latina*; Washington, IADB).

Unsurprisingly, according to *Latinobarometro*, a regional survey, in 2008 17 percent of Latin Americans mentioned crime as the most serious problem facing their countries, second to none, and three times as much as the figure in the mid-1990s. Support for democracy in the region is visibly affected by the citizen's perception of insecurity and of the ability of governments to deal with crime. Nearly half (47.6 percent) of the population in LAC is willing to support a coup d'état if it helps to

solve insecurity problems, a reaction that no other social problem elicits.

While the causes of crime in LAC are multi-fold, four factors deserve to be singled out:

- **High income inequality.** LAC has long had the world's highest levels of income inequality. The region's "original sin" has been routinely linked to crime levels by empirical research all over the world.
- **Precarious opportunities for the youth.** One fourth of the young population in Latin America currently does not study or work, thereby creating a security time bomb.
- **Institutional and social weakness of law enforcement agencies.** In most countries in the region, police forces and courts are ill-trained, underpaid and prone to corruption. They are perceived as ineffective to deal with crime and command low levels of social support (only 39 percent of the population trust the police in Latin America; 30 percent trust the judiciary). One consequence of this is the reluctance of citizens to report crime. In Costa Rica, for example, only a third of crimes are reported to the authorities.
- **Pervasiveness of organized crime, particularly the narcotics trade.** Despite intense efforts to eradicate illicit crops and interdict drugs, LAC is the world's largest cocaine producer and plays a growing role in the production of synthetic drugs and opiates. Whether as producers of illicit crops, trans-shipment countries, entry points to key markets, money laundering locales, or large consumption markets, practically all countries in LAC take part in a drug trade that mobilizes tens of billions of dollars every year. These money flows and the sophistication

of the criminal networks that underpin it not only feed many other illicit activities but have indeed transformed the region's security landscape. An example: in 2008, nearly half of homicides in Mexico were directly linked to the narcotics trade.

## The Challenge

Democracies in LAC must put in place effective and sustainable strategies to deal with high levels of crime. They must do so while resisting loud calls to solve these problems through "iron-fisted" policies and a cavalier attitude towards the rule of law. "Iron-fisted" policies have a poor record of controlling crime in a lasting way and a stellar one of undermining human rights.

If they want to be successful in the fight against crime, governments in LAC must put in place effective social prevention strategies and deepen their commitment to human development-oriented policies. Yet, social prevention policies must be calibrated with a sense of urgency and the acknowledgement that the robust use of state coercion, within the boundaries of the rule of law, is inescapable in the fight against crime, notably organized crime. No matter how effective social prevention policies may prove in the long run, they are glaringly insufficient to confront the acute political challenge that citizen insecurity poses to democratic governments in LAC.

Hence, the challenge, as shown by the best examples in crime level reduction in LAC and elsewhere, consists in balancing "zero tolerance" for crime with "zero tolerance" for social exclusion.

## Hemispheric Opportunity

While security realities in LAC are very heterogeneous, in most countries a successful strategy to tackle crime calls for the following steps:

1. **Recast the discussion.** There is no silver bullet when it comes to fighting crime. The issue requires a comprehensive approach that defies false dichotomies between long term social prevention and short term control of crime. The public's justifiable anxiety in LAC calls for immediate improvements in law enforcement mechanisms. Yet, authorities must prepare the public for a drawn-out struggle. Peddling "iron-fisted" policies as the easy and lasting solution to crime does little to solve the problem and even less to strengthen democracy.
2. **Invest in opportunities for the youth.** Increasing the amount and effectiveness of public investment in education, healthcare, social care provision, and job training opportunities for the youth is vital for security purposes in LAC. More broadly, it also helps to nurture more cohesive societies. If not conclusive, the international evidence is certainly worth noting: the top 30 countries in the UN Human Development Index ranking boast, on average, a homicide rate of just 1.58 per 100,000 people. Only one of them, the U.S., has a homicide rate greater than 3 per 100,000 inhabitants. Human development-oriented public policies are the key to safer societies.
3. **Upgrade law enforcement institutions.** It is vital to persevere with police and judicial reform processes, which so far have had limited success in LAC. While criminal justice statutes have been modernized, other critical aspects such as training of police officers and prosecutors, intelligence and investigation capacities, internal control procedures, and use of modern information systems continue to lag badly behind in most countries, thus resulting in widespread impunity. Equally weak is the formation of civilian capacities in security policies, notably in Congresses but also amongst the region's civil society.
4. **Improve governance of security issues.** A successful strategy demands vertical coordination between levels of government and horizontal coordination between branches of government. Moreover, it requires a hitherto rare articulation of security measures with several kinds of social policies. This calls for streamlined coordination mechanisms throughout the state, and, crucially, for clarity in the functional division between national and sub-national authorities. While the latter can play a vital role in preventing and controlling common forms of crime, fighting organized crime requires a level of sophistication that goes beyond even national governments. Finally, given the widespread presence of private security forces throughout LAC, which is probably irreversible at this point, it is urgent to improve public regulation and oversight of them.
5. **Improve police-community links.** Social distrust of law enforcement agencies is a major obstacle in the fight against crime in LAC. It is also a driving force behind the privatization of public security in the region. One of the keys of any strategy to reduce impunity in LAC is to get citizens to report offences. Increasing societal oversight of the police and introducing different models of community policing is essential in most countries in LAC.
6. **Regulate firearms.** More than 60 percent of homicides in LAC are committed using firearms. While the region has made significant strides to regulate transfers of small weapons across borders, national laws regarding gun possession are generally permissive and/or poorly enforced. A more restrictive approach towards handguns has been instrumental

in reducing crime in several cities in the region, notably in Colombia.

#### 7. Promote a Hemisphere-wide dialogue on drugs.

Narcotics are at the center of the security situation in many countries in LAC. The problem requires a multi-fold response at the national level. However, since it clearly transcends national jurisdictions, it also demands a Hemisphere-wide dialogue. This dialogue should convey the urgency for LAC of profoundly revising the counternarcotics strategy of the single largest drug-consuming country in the world, the U.S. The current set of policies, strongly geared towards the control of the drug supply by means of eradication of illicit crops and interdiction of trafficking, has generated myriad negative consequences for LAC, including increases in crime and opportunities for corruption.

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VICKI HUDDLESTON AND CARLOS PASCUAL

## REFRAME U.S. – CUBA RELATIONS

### The Context

U.S. policy toward Cuba should advance the democratic aspirations of the Cuban people and strengthen U.S. credibility throughout the Hemisphere. The nearly 50-year old policy fails on both counts: it has resulted in a downward spiral of U.S. influence on the island and has left the United States isolated in the hemisphere and beyond. U.S. policy toward Cuba has become a bellwether, indicating the extent to which the United States will act in partnership with the region or unilaterally—and ineffectually. If the President is to advance U.S. interests and principles, he will need a new policy and a long-term strategic vision for relations with Cuba. If he is prepared to discard a policy of regime change and adopt one of critical and constructive engagement, he and his Administration will lay the foundations for a new approach toward Cuba and Latin America.

### The Challenge

For the United States, the challenge is how to put in place a new policy based on critical and constructive engagement. If the United States is to play a positive role in Cuba's future, it must not indulge in hostile rhetoric nor obstruct a dialogue on issues that would advance democracy, justice, and human rights as well as broader national interests.

Perversely, the policy of seeking to isolate Cuba, rather than achieving its objective, has contributed to undermining the well-being of the Cuban people and to eroding U.S. influence in Cuba and Latin America. It has reinforced the Cuban government's power over its citizens by increasing their dependence on it for every aspect of their livelihood. By slowing the flow of ideas and information, the United States has unwittingly helped Cuban state security delay Cuba's political and economic evolution toward a more open and representative government. And, by too tightly embracing Cuba's dissidents, it has provided the Cuban authorities with an excuse to denounce their legitimate efforts to build a more open society.

Cuba policy should be a pressing issue for the Obama Administration because it offers a unique opportunity for the president to transform our relations with the hemisphere. Even a slight shift away from hostility to engagement will permit the United States to work more closely with the region to effectively advance a common agenda toward Cuba. By announcing a policy of critical and constructive engagement at the Summit of the Americas in Trinidad and Tobago, the president can prove that he has been listening to the region.

Lifting all restrictions on Cuban American travel and remittances and opening dialogue with the regime—initiatives proposed by President Obama on the campaign trail—are by themselves insufficient to put the United States on a long-term, strategic path toward the normalization of relations with Cuba. To take policy further, the United States should proceed with the unilateral measures outlined below in the short term. To do so, it should take into account two principles governing these initiatives. First, U.S. policy should avoid predicating actions on the responses of the Cuban government, because doing so would allow Cuban officials to set U.S. policy, preventing the United States from serving its own interests. Second, the United States will need to work with its partners in the hemisphere and the European Union to enhance its reach to the island. If the United States were to align its policies with its partners, it would enhance the U.S. reach to the Cuban hierarchy and reinforce the ability to forcefully make the concerns and principles the United States shares with its partners and allies known to the Cuban government.

The prospect of revenues from oil, natural gas, and sugarcane ethanol in the next five years could further integrate Cuba into global and regional markets. While in the short term Cuba will continue to be heavily dependent on Venezuela for subsidized fuel, in five years offshore oil reserves, developed with Brazil, Spain, Norway, and Malaysia, combined with the potential for ethanol production with Brazil, may increase net annual financial flows to Cuba by \$3.8 billion (at \$50 per barrel of oil and \$2.00 gallon of ethanol). To be relevant to Cuba, the Obama Administration will need to shape its policies now.

### Hemispheric Opportunity

Like his predecessors, President Obama has the authority to substantially modify embargo regulations in order

to advance a policy of engagement that would broaden and deepen contacts with the Cuban people and their government (while the Helms-Burton Act of 1996 defines conditions Cuba must meet for the United States to end the embargo and codified embargo regulations, it also codified the provision that “all transactions are prohibited except as specifically authorized by the Secretary of the Treasury”). He has the popular support—domestic and international—to engage Cuba, and, by so doing, to staunch the United States’ diminishing influence on the island and recapture the high road in U.S. relations with the hemisphere.

The president should determine the conduct and timing of the U.S. relationship with Cuba. He might consider basing his actions toward Cuba on the following criteria: whether they contribute to improving the U.S. image and ability to work with the hemisphere; the degree to which they enhance stability, peace, and development; their strength in promoting human rights, democracy and justice; and the extent to which they improve the lives of the Cuban people.

The president has a wide menu of options, all of which can be carried out without seeking new laws or modifying old ones.

- **Broaden and deepen bilateral and diplomatic relations.** As the first step to improving bilateral relations, the United States should abandon public hostility toward the island and its leaders. In so doing, it should aim to gain greater access to the Cuban government and its people, as was the case during the “Cuban Spring” between 1998-2003 when better relations and greater contact with the Cuban government contributed to lower oppression and increased freedoms for civil society. To replicate these conditions of openness, diplomatic travel and interaction must be reciprocally expanded to grant

U.S. diplomats in Havana the knowledge, access, and expertise needed to predict, evaluate, and deal with any eventuality in Cuba. This requires permitting comparable opportunities to Cuban diplomats posted in Washington. The United States should also expand bilateral dialogue on issues of mutual concern. To reduce illegal migration, enhance U.S. security, and conserve fisheries, the State Department should resume migration talks at the Deputy Assistant Secretary level and begin a dialogue between the respective heads of the Interests Sections on issues including the environment, health, and counter-narcotics.

- **Enhance contact between Cuban and U.S. citizens and permanent residents.** To replicate the conditions of the “Cuban Spring,” the President should take unilateral and unconditional actions that promote enhanced human contact by generously licensing all categories of travel permitted. He should, first, follow his campaign promise to grant Cuban Americans unrestricted rights to family travel and to send remittances to the island, since Cuban American connections to family are the United States’ best tool for helping to foster the beginnings of grass-roots democracy on the island. Further, he should expand travel for all American citizens and permanent residents by instructing the Office of Foreign Assets Control (OFAC) to license people-to-people travel for educational, cultural, and humanitarian purposes. Finally, Cuban citizens should also be permitted to travel to the United States for a variety of purposes -- including family, academic and cultural visits. Enhanced contact and openness would strengthen the bonds of family and culture, helping the Cuban people improve their lives and grow the social organizations necessary for a democratic civil society.
- **End the communications embargo.** The President should seek to promote the free flow and exchange of ideas and information, including the creation of music, films, and other works of art as embodied in Representative Howard Berman’s Free Trade in Ideas Act. He should also permit the donation and sale of communications equipment under a general license, license the provision of telecommunications services as provided in the Cuban Democracy Act, and allow Cuban state and non-state entities to access satellite and broadband communications networks.
- **Establish civil society assistance.** To promote the growth of civil society and grassroots democratic activity, the President should establish an assistance program for civil society and license the transfer of funds for activities that focus on human rights, rule of law, micro-enterprise, and professional training. He should also provide licensing for providers of U.S. government and private assistance and encourage the creation of multilateral funds that promote the same objective.
- **Remove Cuba from the list of terrorist countries.** The reasons listed for Cuba’s inclusion on the list appear to be insufficient, leading to charges that the list is a political tool for appeasing domestic constituencies. In order to ensure that this important vehicle in U.S. policy is used appropriately, a review of the evidence should be conducted. If Cuba is legitimately found to be a terrorist state based on the evidence over the last five years, it should remain on the list; if not, it should be removed.
- **Not object to Cuba’s participation in the OAS.** The United States should not object to the OAS Secretary General discussing with Cuba the requirements for reinstatement as a full member. In addition, the

United States should not object to Cuba's participation in the OAS specialized and technical agencies.

- **Permit U.S. assistance to Cuba for disaster assistance.** In order to avoid a recurrence of the impasse over hurricane assistance in 2008, the Department of State should seek an understanding or agreement with the Cuban government that would permit U.S. assistance to Cuba for natural disasters.
- **Modify licensing agreements for tradable medicines from Cuba.** The President should modify current licensing regulations so that tradable medicines developed in Cuba are subject only to FDA approval without separate OFAC authorization.
- **Respond to Cuban actions.** If there were a change in Cuban behavior, the President might consider opening bilateral discussion on the return of sovereignty of Guantanamo Bay and on the resolution of expropriated property claims. Cuba will have to cooperate by releasing political prisoners and assuring its citizens of basic rights.

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CAROL GRAHAM

## MITIGATE THE EFFECTS OF THE FINANCIAL CRISIS TO ENSURE LONG-TERM WELL BEING

### The Context

It is no surprise that public attention world-wide is focused on the financial market crisis: the future of capitalism as we know it is at stake, our markets are in turmoil, and even the safety of individual bank accounts is in question. The U.S. economy is mired in recession. Latin America, a region with a trajectory of weathering crises, is now poised for the spillover effects, which threaten to undermine its hard won gains from the economic reforms of the 1990's. What are the implications for individual welfare in the region? For public support for free trade, market reforms, and democracy? Will the crisis result in a new round of public support for Chavez and Morales style populists? Can we even begin to answer these questions?

Happiness surveys are increasingly being used to assess the welfare effects of phenomena ranging from cigarette smoking and obesity (bad for happiness) to participating in democracy and getting a promotion (good for happiness). They are based on interviews with hundreds of thousands of individuals across countries and over time. The welfare effects can be quantified in income terms. A typical individual in the U.S. or Britain, for example, would need roughly \$60,000 (in 2004 dollars) to make up for the stated changes in happiness that stem from

losing his or her job—in *addition* to the forgone employment income. Instability in income flows, meanwhile, has a stronger negative effect on happiness than does the positive boost that comes from income gains.

Financial crises are terrible for happiness. This is not a surprise. We know that individuals are loss averse and do not like uncertainty. Crises bring about significant amounts of both. Not surprisingly, they bring changes in happiness of unusual magnitude: national average happiness levels do not move much for the most part, but they surely do at times of crisis. During the crisis in Latin America in 2001-2002, individuals in the crisis countries had above average happiness levels before the downturn, and below average levels after (controlling for the usual socio-economic and demographic factors). The effects were temporary and in subsequent years, as growth recovered, happiness in most of these countries returned to the pre crisis level.

In those same countries, *satisfaction* with democracy and with how the market was working went down significantly. Yet *preference for democracy as a system of government* and for *market policies* went up. The majority of citizens in the region were able to distinguish between the poor performance of particular govern-

ments and the more general economic and governance systems they live under.

## The Challenge

The 2008 financial market collapse has made 2001-2002 in Latin America, or even the 1998 collapse of the ruble in Russia, pale in terms of magnitude and reach. While the extent, duration, and magnitude of the current crisis is not yet clear, it surely will have effects on the welfare of billions of individuals for the foreseeable future. Those effects are due as much to the welfare losses incurred in incomes and jobs, as to the uncertainty surrounding the crisis and its causes and possible cures. Our experience with a crisis of this magnitude, and with such strong global inter-connectedness between the markets and countries involved, is limited, with only the Great Depression to point to as an example. Yet that example is one in which global information and technology could not transmit problems—and perhaps solutions—as quickly as they can now.

In order to estimate the effects of the financial crisis on happiness where it began—in the United States—the income equivalent required to compensate for such a loss in reported happiness for the average individual was calculated (based on the coefficient on income in the standard happiness regression for the U.S.). The conclusion is that it would be comparable to a 75 percent decline in income, or \$45,000 for a person earning \$60,000 (for detail on the method, see Graham and Chattopadhyay, 2008). Even if this estimate is high, it suggests that the well being losses for the average person associated with the crisis are very large.

What are the implications of generalized happiness falls of such magnitude? Our research shows that happier people are more likely to support markets and democracy; to perform better in the labor market and to be healthier; and to have positive attitudes about future

mobility for themselves and their children. While happiness levels typically recover along with economies, one cannot tell if short term but significant drops erode these positive associations over the long term; they surely could.

Related to this, the strong belief in opportunity and upward mobility is the explanation that is often given for Americans' high tolerance for inequality: the majority of Americans surveyed believe that they will be above mean income in the future (even though that is a mathematical impossibility). Will the crisis erode the long-standing belief in the fairness of the market system, not least because the costs of the crisis will be paid for by the average citizen, while its roots lie in weak regulation and excessively compensated executive mismanagement?

What are the implications for Latin America? On the one hand, happiness drops could be larger than in the U.S. as most citizens in the region have less of a margin to absorb income losses. On the other hand, the uncertainty effects might be smaller, given that they are far more accustomed to economic uncertainty. Assuming a similar 10 percent drop in happiness for the region as in Argentina in 2001, and a median income of \$18,000 (2008 figures), the income equivalent loss in well being for Latin America would be 53 percent or roughly \$10,000. The effects on public attitudes and faith in the market system, meanwhile, are harder to assess at this point. While faith in the system actually increased during the 2001-2002 crisis, the fundamentals of the system as we know it, beginning in the U.S., were not in question at that juncture.

## Hemispheric Opportunity

The Summit of the Americas brings an opportunity for the countries of the region to discuss a coordinated effort to deal with the welfare losses associated with the

crisis, as well as the potential effects it could have on public attitudes. Policymakers should therefore focus their efforts on the following actions

- **Preserve the positive trend in public attitudes.** Citizens in the region are able to distinguish between the poor performance of particular governments and the more general economic and governance systems they live under. With all of the public attention that Venezuelan President Hugo Chavez and Bolivian President Evo Morales have gotten, the large majority of the region's citizens continue to live under—and support—market friendly democracies: 57 percent of respondents in the 2008 Latinobarometro poll preferred democracy to any other system of government, for example. It is essential to preserve this positive trend in public attitudes by managing the financial crisis as pro-actively as possible.
- **Make visible efforts to demonstrate commitment with the average citizen.** The welfare losses associated with the crisis are difficult to predict and likely to be significant. As insecurity and uncertainty are as detrimental to well being as are actual income losses, governments in the region would do well to make visible efforts to demonstrate their commitment to mitigating the negative effects for the average citizen. The countries in the region that are able to take counter-cyclical fiscal measures to buffer those effects should do so, providing important lessons for the rest of the region going forward.

A positive commitment to mitigating the effects of the crisis at the summit level will hopefully generate positive momentum for necessary adjustments to national and international systems of economy and governance rather than in a dramatic refutation of those systems.

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