Inter-American Dialogue 30th Anniversary Dinner

Remarks of Robert B. Zoellick, President, World Bank Group

Introduction

Thank you for the honor of your invitation to commemorate the 30th Anniversary of the Inter-American Dialogue.

The origins of this Dialogue stretch back to a discussion between Peter Bell and Abe Lowenthal on a park bench.

Peter and Abe were disturbed by the breakdown in inter-American exchanges during the Falklands/Malvinas war, and by the lack of ties with the rising democrats of Latin America. So they discussed bringing together leaders from across the hemisphere to set a new inter-American agenda. The Dialogue held its first ad hoc conference in late 1982.

Today, 30 years later, Latin America's very success offers the opportunity to remake that Hemispheric partnership around new pillars:

- A revived free trade policy that will aid structural reforms for growth in all our countries;
- An energy transformation, ending the Hemisphere's energy dependency;
- A new diplomacy infused with private sector pragmatism to solve public problems;
- Shared security; and
- The first Democratic Hemisphere.

For the United States, this new agenda could enable us to rely on a great, home-grown asset – Hispanic-Americans – as the vanguard of U.S. connectivity in a new Western Hemispheric economy.

This Dialogue can – and I believe will – help drive this change: to create a “Globalization: Made in the Americas.”

Under Peter Hakim’s and now Michael Shifter’s energetic leadership, the Inter-American Dialogue has become the leading U.S. center for policy analysis, exchange, and communication in the Western Hemisphere.

The idea at the heart of the Dialogue remains very much the same as that which emerged from the conversation on the park bench: that through dialogue and shared vision, interested citizens across the hemisphere together can plant the seeds of new policy ideas and practical proposals for progress in the Americas.

So tonight, let’s put that idea to work.

A Different Vantage Point

Just two months ago, the leaders of the Western Hemisphere met in Cartagena for the Summit of the Americas. Colombia was an excellent host, and the Summit showcased the country's many hard-won achievements.

But the news reports were, frankly, disappointing. Aside from the behavior of some Secret Service agents, the coverage focused on disagreements about Cuba and drugs. Some even suggested this would be the last Summit of the Americas. The agenda seemed stuck in a time warp.

So when Carla Hills asked if I could join you this evening, I thought the best way to celebrate the Dialogue's Anniversary was to offer new possibilities for the Americas in a fast-changing global economy.

My vantage point on our hemisphere is different from many U.S. contributors to the Dialogue. I am not a specialist in Latin America.

Like many of my U.S. foreign and security policy colleagues, much of my energy has been concentrated on the issues of Europe and the Asia-Pacific, the Middle East and Southwest Asia.

Yet because of my economic background, Latin America and Canada have loomed larger on my global map.

In the 1980s and early 90s, working with Secretary of Treasury and State James Baker, we were immersed in issues of Latin American debt and reforms for growth, the Canadian and North American FTAs, and Central American security and democracy.

In 2001, as U.S. Trade Representative, we were fortunate to build on that experience, negotiating FTAs with Chile, Colombia, Peru, Panama, the five countries of Central America and the Dominican Republic. Together with NAFTA, these FTAs cover 54 percent of the economy of our hemisphere, not including the United States, offering an underutilized web of free traders that could support deeper integration in the Americas – even hemispheric free trade and democracy.

Five years as President of the World Bank Group has added to this perspective.

Why am I stressing this global outlook on Latin America? Because, while working on the issues of our region, I have urged my Latin counterparts to look globally, too.

Instead, for too many years, the dialogue within our hemisphere seemed constrained by a North-South framework. The United States loomed large – whether as a hegemon, source of support, market, model, danger, or even frustrating land of inattention.

On development, debt, investment, competition, and trade, Latin Americans need to see the wider horizon – especially to benchmark with East Asia. And beyond East Asia, Latin America has a new role to play in building multiple engines of growth with other emerging markets. It is time to break out of that North-South construct.

Consider Canada's experience in combining regional integration with global reach: of course, Canada's FTA with the United States in 1988 deepened the two countries' economic integration – but in addition, the competitive adjustment driven by that accord made Canadian business more competitive globally.

A new hemispheric partnership requires leaving old habits, old mindsets, and old models of dependency behind.

That partnership will necessitate a new mix of partners, public and private.

That partnership should be the next challenge for the Summit of the Americas and this Dialogue.

Latin America’s Record of Gains

Latin America’s recent record of gains now puts it in a position to remake the Hemispheric partnership.

The numbers tell the story.

Between 2003 and 2010, the income of the average Latin American increased by more than 30 percent. A silent revolution in macro-financial policy has strengthened the economic immune system of many countries. We saw the payoff after the fall of Lehman Brothers: Sound policies in Latin America enabled expansions to offset the downturn without the aftershocks that now threaten Europe.

About 73 million Latin Americans have been lifted out of poverty since 2003. Today, almost a third of the region's population is considered middle class.

Latin America is breaking a pattern of persistent inequality, including through an increase in women's involvement in the economy, particularly from poor families. Colombia and Peru have buttressed this trend by boosting opportunities for people of African and indigenous origin, seeking to overcome divisions that populists have exploited.

Mexico and Brazil have led in developing well-targeted conditional cash transfer programs that have revolutionized public assistance. These programs couple income grants for poor families with incentives for health check-ups and keeping children in school. Mexico's Oportunidades program has probably done more for women's health than anything in the country's history.

These are safety net programs that appeal to a fiscal conservative: They cost only about half a percent of GDP. The World Bank has helped export this model to 40 other countries, ranging from Pakistan to the Philippines.

Latin America is “going global.” As the global trade negotiations have stalled, leading Latin American free traders have tried to keep up the momentum. Mexico has FTAs with 59 countries; Chile with 43.

Colombia offers a leading example of how a democracy can combine security, development, and good governance to overcome narco-traffickers, kidnappers, and terrorists. Peru demonstrates how sound economic policy and political commitment across administrations can reverse years of stagnation.

Brazil’s influence is expanding – through its companies, agricultural and mining experience, development work, peacekeeping in Haiti, and interest in Africa. Brazil’s leaders of the left have also turned a page in history by sticking with democracy. Rising leaders of the left in other Latin American countries have seen the benefits for the poor of Brazil’s example, compared to authoritarians who tear down institutions to consolidate personal or party power.

Looking Ahead

So what’s ahead for Latin America?

Latin America's per capita income is still only at 30 percent of the U.S. level.

To climb higher, Latin American economies will need to leap beyond the so-called middle income trap. Many developing economies make early rapid gains. But then productivity and growth tend to slow.

This is a global challenge. In 1960, the World Bank ranked 101 economies as middle income; by 2008, almost half a century later, only 13 had made it to high income levels – and one was Greece.

Many Latin American countries will need to translate the commodity boom into broader, more diversified economies. This region has lived through roller-coaster booms and busts before.

Higher productivity is the antidote to the middle income trap.

Since the 1980s, Latin America has underinvested in infrastructure – electricity, roads, bridges, ports, transport – and maintaining and operating these services. Currently, Latin America spends 2 to 3 percent of GDP on infrastructure, less than half the rate of investment in East Asia.

Public-private infrastructure partnerships not only offer a source of financing, but also better design, maintenance, and operations to deliver high-quality services on time.

Colombia has experimented with PPPs in urban water supply and sanitation. Mexico's new Highway Concession Program has mobilized PPP projects of around $11 billion, expanding the country's major toll roads network by some 25 percent.

Latin America has to anticipate its human capital needs. The region is aging rapidly: today, about 11 percent of Brazil's working age-population are seniors; by 2050, it will be nearly half.

Latin America also needs to improve the results of its investments in education. By age 15, the learning achievement of the average Latin American student lags two years behind his or her developed country counterparts.

Latin America is recognizing that gender equality is smart economics. Today, women in Latin America outnumber men in schools and universities. Working age women represent roughly 40 percent of the entire labor force in the region.

To continue to grow, the region will need more competition and innovation in the service sector. Competitive services increase productivity. They supply the ‘software’ of integration: transport, where delays and losses can impose significant costs; information technology, because accurate data and effective communication is vital; financial services, to create a supportive business environment; and logistics systems, which are a driver of business competitiveness.

A New Agenda

What do these challenges mean for a new hemispheric partnership? What should have been the news coming out of Cartagena?

Let me offer five ideas.

First, the Western Hemisphere needs to revive an activist free trade and economic reform policy, globally and regionally. We need fresh approaches.

The United States will be cutting agricultural subsidies, especially given high prices, and eliminating protection for ethanol. Why not deploy these to prod others?

Service sector liberalization can boost productivity, open new businesses, create new jobs, and cut the “Latin cost” that many countries impose on their own businesses. Why not deploy this economic need to revive a mutual interest in negotiation?

A strong self-interest can drive this renewed call for liberalization. Latin American economies still need much investment and more robust capital markets – especially in local currencies – that can help Latin American entrepreneurs and family-owned businesses to expand.

Infrastructure investments require capital goods and services, as Panama’s 21st Century Canal project is demonstrating. Why not dismantle barriers to lower the cost of infrastructure expansion?

Better logistics make economies more competitive. The World Bank's 2012 Logistics Performance Index estimated that Latin American logistics costs are between 16 and 26 percent of GDP – that's two to four times the average in Europe or East Asia.

The World Bank has helped Colombia and Peru to implement a "single window" approach to customs clearance and border management. In Brazil and Peru, the Bank has worked with international freight forwarders to connect rural, remote villages and small businesses to export through national postal services; in the first six months, more than 300 small firms in Peru became exporters, most for the first time.

Even as the WTO works toward a Trade Facilitation agreement, the Americas could develop an accord that points the way.

Brazilian officials are focused on exchange rates. Yet to really boost growth the target should be productivity. Better infrastructure can help, and so can more efficient and effective public services. The World Bank Group has launched a deeper partnership with the Governors of the Northeastern states of Brazil to overcome these impediments. Over time, however, the United States and its free trade partners should be working with Brazil to rebuild the case for a hemispheric initiative to realize the benefits of trade liberalization and economic reforms.

It takes two to tango, and this agenda requires changes on the part of the United States, too. The United States is no longer leading the open trade agenda, as it relies increasingly on defensive measures. The United States has its own high costs of trade – antiquated ports and laws to protect special interests.

The United States should work with its current free trade partners in the Americas to deepen ties of development, reform, and investment.

The current architecture of US FTAs in the hemisphere offers a solid legal framework, but it needs to evolve into a home for an ongoing dialogue – across countries and with business, academic, civil society, and environmental communities – to see what else can be done to lower costs and barriers and create opportunities.

The United States and its partners could explore progressive integration across the FTAs, for example by expanding provisions to cumulate inputs among partners while qualifying for free trade.

The United States needs to make its hemispheric FTA network dynamic, linked to business and investment policies, and improved governance.

A new concept of an FTA network in the Americas could also support inclusive and sustainable development as the foundation for open societies and borders.

Second, innovation in the energy sector, led by the United States, could transform energy security for North America, the Hemisphere, and the world.

In 2008, imports supplied 70 percent of US oil demand. By 2020, PFC Energy estimates that imports could be down to 40 percent of US oil demand – or even 20 percent if Canadian oil is counted as part of the home market. If natural gas for Canada and the United States is added, U.S. net energy imports from the rest of the world could drop to five percent of U.S. demand. That's an amazing game-changer in energy.

If Mexico opens PEMEX to real outside investment, the outlook is even brighter. With the discovery of the giant deep offshore PRESAL oil and gas fields, Brazil can play a major role in supplying oil and gas in the region.

Yet there is a need to connect these energy supplies – through infrastructure – with countries in Central America and the Caribbean that have suffered from high prices and limited access. Increased efficiency and alternative sources could help the energy poor, too. It's long past time for a hemispheric energy policy – blending consideration of inclusive growth, the environment, and indigenous communities' interests.

Third, this new Hemispheric partnership needs to break old patterns of diplomacy. There are now vibrant private sectors all across the hemisphere. The challenges of overcoming the middle income trap and structural reforms to boost productivity need private sector advice and solutions. All across the developing world, the World Bank is encountering a new pragmatism about involving the private sector in areas that used to be public monopolies: infrastructure; education; healthcare; skills training; delivery of public social services. Advanced economies such as the United States should be taking note, too.

Yet government-business dialogues can be stilted showcases. The Summit of the Americas – and perhaps the Dialogue – should review which approaches work better and why. With some guidance, businesses can better connect possibilities with policies. Governments can commit to responses, commitments, openness, and results.

Fourth, the new Hemispheric agenda should help all 35 countries overcome security threats to growth and opportunity.

The fragile governments of Central America are at risk of being overwhelmed by crime and violence linked to drug trafficking, organized crime, gangs, and firepower. Spain, which has roughly the same population as Central America, has about 400 murders per year; in 2010, Central America had over 18,000.

The region pays a heavy economic price for this insecurity – as much as 8 percent of GDP. The basic legitimacy of governments and institutions is fraying: About half of Central Americans say a military coup could be justified when crime levels are high.

Experiences from Medellin and Rio de Janeiro have shown that the best way to attack criminal insecurity is through an integrated approach: combining stepped-up policing, prevention, and community investments. Quick turnarounds are possible. Strong regional cooperation is indispensable.

The United States has an unfortunate pattern of ignoring dangers in Central America until they explode. This time U.S. diplomacy should work with Mexico, Colombia, and Panama to develop a coherent strategy – not band-aids. As in Colombia, the Central American private sector must also be part of the solution. And the United States should also take responsibility for the drug habits of its public that fuel demand for narcotics from the south.

Fragility in the Caribbean is another soft spot. But small economies can be competitive in many sectors. Accelerating integration in the Caribbean can share services, add to resilience, and boost economic prospects.

Latin America should also be looking toward a greater role in global security – through practical steps, not the old G-77 policies of the past. My friend and former colleague, Bernie Aronson has proposed, for example, that Brazil could lead by voluntarily ending its uranium enrichment program and then calling on other nations – including Iran – to follow its example. If Brazil wants to help shape the 21st Century, leadership in preventing the spread of nuclear weapons – with an idea and action – would send a powerful signal.

Fifth, the debate over Cuba at Cartagena sounded like hollow echoes from another era. Look ahead, not back.

Chavez's days are numbered. If his subsidies to Cuba and Nicaragua are cut, those regimes will be in trouble. The democrats of Latin America – left, center, and right – should be preparing. The calls for democracy – for an end to intimidating thugs, human rights, fair elections, and rule of law – should come from all its capitals.

There will soon be an opportunity to make the Western Hemisphere the first Democratic Hemisphere. Not a place of coups, caudillos, and cocaine -- but of democracy, development, and dignity.

This transformation will not be achieved by the Calvo doctrine. By divisive populists. By corruption. By acquiescence. By silence.

You know well that if Latins leave the work to Washington and Ottawa, the opponents of liberty and human rights will play the cards of gringoism and neo-imperialism. Trump them.

Conclusion

For the United States, a new partnership in the Western Hemisphere offers opportunities for renewal at home, too.

All the debates about macroeconomic issues – fiscal and monetary policies – as important as they are, risk inattention to microeconomic incentives, structural reforms in the United States.

Energy. Infrastructure. Education. Human capital. Competition. Environment. Innovation. The United States also needs to clear away old rigidities on these new fundamentals.

The United States also needs to draw on the energies, intelligence, and drive of all its citizens.

As my friend Luis Alberto Moreno of the Inter-American Development Bank has pointed out, the 50 million strong Hispanic community in the United States is a growing market, source of entrepreneurship, and resource for a Hemispheric economic strategy. At over $1 trillion, the purchasing power of Latinos in the United States is larger than the economies of every Latin American country except Brazil.

According to the U.S. Census Bureau, there are between two and three million Hispanic-owned businesses in the United States. Many are small. But they create jobs, earn revenues, and pay taxes.

As Latin America grows, the Hispanic businesses in the United States offer an incredible asset. Hispanics in the United States could be in the vanguard of a new Western Hemispheric economy.

Small and medium-sized Hispanic-American businesses will need help to expand their entrepreneurialism – information about markets, financing, and risk management services. To be most effective, this assistance should be decentralized – perhaps drawing on local chambers of commerce in cities and states where most Hispanic businesses can be found. The Small Business Administration, OPIC, Ex-Im Bank, the Inter-American Development Bank, and the World Bank could then deploy their resources to help.

The world economy is still struggling to recover from the worst blows since the 1930s. Europe is a danger zone. U.S. leadership remains vital to get through the storm, to reach a new world economy of multiple poles of growth.

This is why the news coming out of the Cartagena Summit was disappointing.

This is not a time for drift, for old North-South debates, for retreat behind borders, old mindsets, or out-dated dependencies.

This is a time for the New World to again inspire novel thinking – about development, growth, structural reforms, rule of law and human rights, democracy, and security.

This Dialogue should aim high: To have the Western Hemisphere shape this next era of globalization – so that future historians will title the next chapter, not “The Passing of the New World,” but “Globalization: Made in the Americas.”

Fuente: BM