

**THE TRILATERAL COMMISSION
2013 NORTH AMERICAN REGIONAL MEETING
MEXICO CITY, MEXICO
SUNDAY, NOVEMBER 10, 2013**

**Session VI
VARYING TRENDS IN THE WESTERN HEMISPHERE**

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MR. CHRETIEN: Good morning. So, let's get going for our last session.

You have noticed that the title is "Varying Trends in the Western Hemisphere." I must tell you that when I was first approached to chair this panel I was wondering exactly how to interpret the title of our panel.

But after discussion among ourselves with a few others in the room we decided to focus eventually on what has not been discussed at length in the last couple of days, namely what's going on in South America. And that's what we will do.

So we have three eminently qualified speakers to talk about various aspects of what's going on there this morning. I will introduce them briefly.

First, on my right is Dudley Ankeron. He's a former member of the British Diplomatic Service. He now runs his own firm called Latin Insight Consulting and is still an advisor to the British government.

On my left here is Susan Kaufman Purcell. She's the director of the Center for Hemispheric Policy at the University of Miami.

Then on the left, ultimate left, is Santiago Levy, who is the vice president for sectors and knowledge at the InterAmerican Development Bank. You have their detailed CV of course in the documentation.

But, before I give the floor to our first speaker, Dudley, a few words perhaps about Canada and the U.S., and a few things that have been discussed in the last 2 days.

I was very struck yesterday by the comments that Andres Rozental made about the Canada-Mexico relationship. And it led me to say a few words perhaps about the Canada-U.S. relationship because there is a similar phenomenon in the wings out there that could alter the nature of the relationship.

A few words about Canada. I will let you decide how our mayor of Toronto should handle himself. It seems to be the only topic related to Canada in the news these days. It's not of great pride to many of us to see the most important city of Canada handled or run or not run that way.

In Canada, things are going well in our country. Growth is 2.2, 2.3 percent. The political situation is stable. The new government in Quebec is a separatist government but in a minority position, therefore not in a position to threaten the unity of the country.

But there's one issue that I want to talk about. It's the one alluded to by Jim Prentice yesterday and others, Keystone XL.

I have watched the Canada-U.S. relationship over many, many years. I've seen the relationship between some Presidents and some Prime Ministers. I have in mind, for instance, the excellent relationship between Prime Minister Mulroney and George Bush and the excellent one between, of course, Bill Clinton and Chretien. Mack McLarty is here to testify to that excellent relationship.

It's not the same with our present Prime Minister and President Obama. They talk to each other, they deal with each other on issues, but they are not friends. I would describe the relationship as purely professional. So that makes the management of that key issue in the Canada-U.S. relationship very difficult.

If President Obama were to deny or say no to the approval of this pipeline between Alberta and the refineries of Texas, it would create on the Canada-U.S. relationship the same negative impact that Andres Rozental has talked about, the Canada-Mexico relationship because of the visa issue.

I've never seen over the years so much effort, so many players on our side, involved in trying to convince the American authorities to make the right decision. Not only Prime Minister Harper, but various premiers, businessmen, a tremendous effort. And it will be interesting to see how it's going to go.

Now, maybe a few words about the topic of the day, essentially what's going on in South America. There has been a number in the last 12 months, a number of events that I should mention as a start for our discussion.

One, of course, is the collapse of Venezuela. Another one would be the Pacific alliance and its interaction with Mexico as it was discussed last night.

A third one would be, and it might be a temporary one, but clearly the weakening of the Brazilian economy is of major significance. And after all, down there you have two G20 countries in Brazil and Argentina that deserve some attention.

So we'll start our discussion right now with Dudley. And Dudley will try to give us a kind of bird's eye view of what's going on in Latin America with a special emphasis on the security aspect of many of those countries.

Susan will then take on the discussion by talking more about major trends in the hemisphere.

And Santiago Levy will discuss development, social issues and whatever else he wants to discuss because he's certainly one of the best experts on Latin America.

So Dudley, the floor is yours.

DR. ANKERSON: I thought it might be helpful to start if we look back at Latin American in 1980 and the characteristics of Latin America at that time, and then see how much has changed.

The major characteristics in the seventies and eighties were political instability and authoritarianism, military government in all the Southern Cone countries, Peru and Bolivia, an authoritarian regime in Mexico, a one-party dictatorship in Cuba, and, as I say, fragile democracies elsewhere.

The U.S. enjoyed a dominant political and economic influence within the region while being involved in countering perceived Cold War threats by various means.

And this situation was not contested by the Soviet Union after 1962. Not seriously. Obviously other than in the case of Cuba.

Official China, the People's Republic of China as opposed to Taiwan, had no real footprint in the region at all. There were guerilla movements in various areas, many of which looked to Cuba as a model, Central America, Peru, Colombia.

There was uncertain growth, high levels of inflation in many countries and repeated debt crises. There were some attempts to promote regional economic integration such as the Andean Pact and the Central American Common Market, but they had limited success and there were no serious attempts to promote closer political integration outside the OAS.

So if we move forward 35 years, or 33 years, where do we find ourselves? Well, on the political front we've seen a consolidation of democracy and an end to *golpismo* and coups.

But there are quite important variations in the political arrangements from country to country. There's been an end to the left-wing guerrilla conflicts which characterized the region from the sixties through to the eighties, with the obvious exception of Colombia, and one or two very small and highly localized groups such as the EPP in Paraguay.

Cuba remains an issue in regional politics, but is no longer regarded as a serious subversive, let alone ideological, threat to the democracies of the region. It's rather seen as an economically fragile state which needs assistance as it embarks upon an economic and possibly political transition.

The two lefts to which Jorge Castaneda referred in Foreign Policy 10 years ago are still a feature of the landscape. But the former, the delegated democracy, to use Guillermo O'Donnell's phrase, which was espoused by former President Chavez, is largely discredited. Bolivia and Ecuador are developing their own particular variants upon this system, upon the concept, but generally I would say Venezuela is certainly not seen as a model for others to follow.

Regarding U.S.-Latin America relations as seen from outside, and being very aware that there are much more distinguished specialists in this topic in the room than I, the obvious point is U.S. trade and investment remain central to Latin America, still well above that of China.

But the U.S. no longer occupies such a dominant position as it did previously. The U.S. will obviously continue to have strategic security interests in the region, but the focus will continue to shift towards issues such as crime and sources of terrorism.

The U.S. will nevertheless monitor perceived outside hostile influences very carefully such as Iran and potential links with any Hezbollah presence in the region.

In terms of regional integration, there's now a visible tendency towards much greater regional integration. And as testified by the recent increase in the number of regional organizations, there are greater efforts to promote enhanced regional economic cooperation such as Mercosur, ALBA, PetroCaribe and the Alianza Pacifico and through a multiplicity of free trade agreements.

There are also efforts, tentative efforts, to promote closer political cooperation through the creation of various regional groupings. Some of these are very self-evidently ideologically driven, such as CELAC, which was promoted by former President Chavez of Venezuela, and which really is a pretty hollow organization, if you can even call it that. Another more substantial one, UNASUR, has a more geopolitical character. Indeed, it was clear at the outset that Brazil saw this potentially as a vehicle for exercising regional influence.

Moving onto China, this is perhaps one of the most notable changes in the panorama of the region. There's a visible and very marked rapid growth in Chinese investment in the region over the last 15 years.

This investment is very closely targeted at the region's strategic resources. There's no evidence of any Chinese interest of a geopolitical nature other than obtaining access to raw material resources to feed its industrial requirements.

There could be potential friction, I believe, over the ecological standards of Chinese companies. There have already been incidents in Peru which often fall short of best international practice, and over the Chinese habit or custom around the world of preferring where possible to use imported Chinese labor in preference to local labor. This again has sparked incidents in Peru.

Looking forward, Chinese involvement seems slightly to grow over the next two decades and it's quite possible that China will become the largest source of FDI for the region in due course.

The economies of the region overcame the 2008 debt crisis remarkably well in stark contrast, I have to say, to my own continent of Europe. Some have performed better than others but the picture remains positive.

There were reasonably high growth rates and the circumstances bolstered in particular by Chinese demand for their raw materials, although this last point will leave some countries vulnerable to any downturn in the Chinese economy or slackening off in Chinese demand.

Energy is an important feature as we've been hearing. There have been very significant developments in the energy sector over the last 30 years. Following the OPEC revolution, prices have fluctuated but are currently at historic highs more or less.

The picture is fluid, but I think the most notable developments over the last two decades, are

- a) Brazil moving from an importer to an exporter with a significant offshore oil deposits and the emergence of Petrobras as a major oil company.
- b) The development of the significant natural gas industry in Bolivia and Peru.
- c) Perhaps most obviously the growth of shale gas production in the U.S., which is going to affect energy supplies within the region and gas prices internationally. We've been hearing a lot about that, and South America is going to be affected just as much as anywhere else.
- d) The potential for shale gas production elsewhere in the region, here in Mexico, also in Argentina, could have a negative effect in the case of some other gas producers, particularly Bolivia, which will be vulnerable to the development of a serious shale gas industry in Argentina.
- e) The marked decline of the Venezuelan oil industry, possibly temporarily. It depends upon the political circumstances of Venezuela.
- f) And finally, the possibility of energy reform in Mexico, which could lead to significant offshore production and have a number of other side effects.

One phenomenon worth noting, which I think is moving onto the topic of security, which captures the headlines very sadly, but which is sometimes misunderstood because of the rather horrendous and dramatic nature of it, is the question of organized crime.

This is likely to present a serious challenge to the integrity of several states in the region, smaller states at least, and could cause problems or will cause problems up to a point for every state in the region.

Initially organized crime groups grew up through meeting the demand for illegal drugs, largely in the United States but also Europe. They were assisted by the rise of globalization, the relaxation of commercial border controls and by exploiting traditional smuggling routes.

Those involved in this business proved very adept at adapting and shifting the focus of their business according to circumstances.

You had the balloon effect visible in a number of places. A crackdown in Bolivia led to a movement up into Colombia at the beginning of this period. And as the U.S. authorities closed down the routes through the Caribbean and Miami, you had a shift into Mexico.

There's been a movement from the Colombians largely towards the Mexicans in terms of primacy in the trade. Colombians found it more profitable to take a percentage and allow the Mexicans to carry the risk of transporting drugs into the United States.

Moving on from this position, as these organizations grew and probed the defenses of governments, they exposed and exploited many institutional weaknesses, which have enabled them to develop their operations further by diversifying into a wider range of illegal activities.

This phenomenon is going to demand closer regional cooperation, strengthening the institutions of the states within the region, tackling corruption and conducting a radical reassessment of policy options in the sphere of illegal narcotics, as is already happening with President Santos' initiative, those of former President Cardoso or President Zedillo, and the recent OAS report.

Little attention was paid to environmental issues in Latin America 35 years ago. This has now changed. There's a growing awareness of the importance of the environment, not just in the Amazon region but also in Bolivia. There was the election of Evo Morales, whose respect for Pachamama, or Mother Earth, is a central plank of his political platform. And elsewhere within South and Central America.

Climate change leading to floods and landslides has had a detrimental impact in several countries, notably El Salvador and Bolivia, and here in Mexico. There's been melting of glaciers. All of this has created a movement, a greater awareness of ecological issues.

These problems are only likely to increase in the short to medium term and therefore one can expect the issue of climate change to become ever more important in the coming decades, affecting decisions relating to economic development.

I'll just finish by trying to second guess what the main themes are likely to be over the next 5 to 10 years: energy very definitely; security, I think, and handling the security challenges; coping with the energy revolution.

Attempts at regional integration, I think they will continue. I hope they prosper. It remains to be seen. It's not so easy. Mercosur has not been a great success, for example.

Diversification of economic activity towards Asia. Brazil remains an enigma. If there are real structural problems in Brazil it's not clear how quickly Brazil will recover from its present trough, but it's of such a size and importance it's likely to do so.

And there's potential instability in Cuba and Venezuela. Both countries have a transition to manage and it's going to be very challenging in both cases to get it right. And if they get it wrong, it could have dire consequences.

But let's not finish on a negative note. I really think there's a much more positive panorama throughout the region now than when I first came here to study in Mexico nearly 40 years ago.

MR. CHRETIEN: Thank you very much, Dudley. Susan?

MS. PURCELL: Thank you very much.

I agree that the present looks better than the past, but I think the jury is out about the future. I'm going to talk in some very general terms just to raise some themes and concerns.

First, I would question the utility these days of even talking about Latin America as a whole because I see the region as very divided.

Basically, painting in broad strokes, there is a group of countries that is run by elected democratic presidents and another group of countries that has presidents who I call "elected authoritarians." They were elected, but they have used the democratic rules of the game to change their democratic systems into more centralized authoritarian ones.

These two types of governments both benefitted from the China-driven commodities boom. The elected-authoritarian regimes generally had a dominant energy sector. They did not have very diversified economies.

The elected presidents that behaved democratically had more diversified economies, which gave them more options when China's growth rate slowed, and reduced its demand for commodities.

China's actual growth rate remains very debatable right now. The Chinese say that it is 7.5 percent. I personally always question the statistics of dictatorships or non-democratic, non-transparent regimes, so who knows if it is really 7.5 percent.

But in any case, more and more analysts are starting to debate how low China's growth rate is going to go, if it's going to go to 6 or 5 percent. We shall see.

While China was growing at 9 and 10 percent during the commodities boom, however, its growing demand for commodities generated a kind of hubris in South America, where many leaders came to believe that the world's global development paradigm had totally changed. Specifically, the South American commodity producers argued that the developed industrial democracies, led by the United States, were in decline and that the future belonged to China, as well as to the other emerging-market countries. One of the unfortunate impacts this belief had in Latin America was that it reinforced some already strongly-held convictions that state involvement in the economy was a good thing. This idea was most pronounced in countries with a state oil company.

The other impact is something that Dudley mentioned, where the supposed change in the balance of power between the developed and developing countries encouraged the formation of an alphabet soup of regional or subregional organizations, usually led by Brazil or by Venezuela, which pointedly excluded the United States. The "change of paradigm" belief also encouraged many of the countries of South America, mainly the elected authoritarian regimes, but also democratic Brazil, to realign

their trade relationships away from the United States and Europe and toward other emerging market—or developing—countries. Brazil is the most striking example – particularly under Lula, who pursued a very ideologically-driven trade agenda that was not in the economic interests of Brazil. Stated differently, these countries favored south-south trade, even though such trade was not particularly complementary for the countries pursuing it.

To return now to the end of the commodities boom and the slowdown of China's growth, it is not clear that China will be successful, in reorienting its economy from one that has been export oriented to one that will be more domestically-oriented in order to create a consumer-driven society. There are huge vested interests in China, particularly the state-owned companies that might not accept this reorientation.

In any case, the end of the commodities boom has already begun to have serious economic impacts on South America, especially the slowdown of the region's rate of economic growth, and there are going to be related political challenges for these countries as well. Slower economic growth has been most pronounced in Brazil, which in 2010 had a growth rate of 7.5 percent. Last year it was under 1 percent.

The Brazilian government is changing its growth forecasts every couple of weeks as to what the figure will be for 2013.

Regarding Venezuela, Dudley said it is in collapse. I do not know if it will collapse. I think a more likely possibility is a coup within a coup—in other words— an intra-elite conflict, within the political group now ruling the country.

Somebody such as Diosdado Cabello, who is more tied to the military, could come out on top.

The fact that Cuba is sending so many advisors to help Venezuelan President Maduro, who is not the brightest light in the room, keep control is also significant.

I am not going to talk about Cuba in any detail, but I do want to say that I am highly skeptical about the supposed opening and economic reforms that are going on under Raul Castro. If you want to talk about that later we can.

The other countries in South America have had a slightly-delayed reaction to the slowdown in Chinese growth and the resulting end of the commodities boom, but their impact is starting to show up now. Venezuela and Argentina already have an inflation rate of about 25 and 26 percent respectively.

In political terms, the end of the commodities boom moved many South American commodity producers from a win-win situation to a zero-sum kind of politics.

In a win-win situation, high levels of economic growth allow a government to distribute money to all groups making demands. Conflict is at a minimum since everyone is benefitting from the high growth rates. In a zero-sum situation, economic growth is insufficient to meet everyone's demands and trade-offs have to be made. Thus one group's gain is viewed as another group's loss, which produces an increase in political conflict. We have already heard of the protests in the streets of Brazil and elsewhere, although not all of them were tied to the end of the commodities boom, because Chile's protest began, for example, before that. These protests were essentially middle-class protests, at least in the beginning. They were all somewhat different, however, since the different groups of protesters had somewhat different demands. Brazil's protests were triggered by an increase in bus fares, Chile's protests were against the unequal access to education.

As a result of the protests there was a drop in the popularity of several of the elected democratic presidents. Brazilian President Dilma Rousseff's popularity declined but has since gone up somewhat.

In Argentina, the protests helped deny Cristina Fernandez de Kirchner the possibility of changing the Constitution so that she could run for a third term. This could be good for Argentina. We already discussed Venezuela.

These middle-class protests have begun to raise questions about the institutional strengths of Latin America's middle-class democracies.

There is also a question about the relationship of the region's growing middle classes to democratic sustainability.

A lot of these countries expanded their middle classes considerably during the commodities boom. Historically, we have often linked the rise of the middle classes with the strengthening of democracy. Middle classes expect more accountable government and make more demands on their governments in terms of participation, social progress and the like.

In South America, I think there are grounds to question this assumption. Much of the growth in the middle class during the commodities boom was the result of government spending on policies that gave resources or extended easy credit to the poor. Many of the poor are now defaulting on the loans they received, not because they are bad people but because they should not have been given this much credit to begin with. As a result of this situation, many of these new members of the middle class may be forced to drop back into the lower class.

Some of the expansion of the middle class is also a result of the expansion of government employment. When you increase the role of the state in the economy, you also increase the number of government bureaucrats. Many of us have walked into Latin American government offices and have concluded that people did not seem to have enough work to keep them occupied. You could probably say that about U.S. government allies as well, but I am talking here about South America.

There is an interesting contrast here with Mexico, which did not participate in the commodities boom to the same extent as the South American countries did, mainly because of what have been Mexico's self-destructive energy policies, which the Peña Nieto government is now trying to change.

As a result of not having commodities to sell, Mexico had to become more export-oriented in other sectors, such as manufactured goods, which also meant that it had to become more efficient and productive. I think NAFTA played a very big role in this transformation. And, so Mexico went from being a country that had been exporting large amounts of oil to one that exports less oil and more manufactured goods. In the process of converting to a more manufacturing-based economy, Mexico developed a more entrepreneurial middle class, one that included small businesses as well as big ones.

The current Mexican administration seems to understand global economic trends and sees this particular period in time as presenting Mexico with new opportunities if its government can put through the right kind of reforms. Mexico is now in the process of passing a number of important reforms, including in its energy sector, but there is an issue of whether the reforms will be able to be implemented. I think there is reason to give the Mexican government some benefit of the doubt that it will achieve a good number of its good intentions.

There is also the danger in Latin America of falling into what has been called the "middle income trap," where the new middle classes get a taste of the good life and then start making more demands on their governments, which their governments try to accommodate.

Once the new middle classes achieve a more comfortable life style, they stop demanding and supporting additional reforms that are needed to move the country to the next level of development.

Japan can be characterized as having fallen into a middle-income trap, but Japan became rich first. Japan started wealthy.

The danger in Latin America is that the middle income-trap may hit Latin America, particularly South America, too early, that the region may become old before it becomes rich.

Finally I want to talk a bit about energy.

In the interest of transparency, I sit on the board of the largest independent refining company in the United States. But am also an academic who has looked at energy issues for years.

I could not be here for yesterday's discussion on energy, although I heard some of what was discussed.

The fracking revolution in the United States is hugely important and none of the energy companies saw it coming. They only realized what was happening within the last 5 years. In addition, the development of fracking and of horizontal drilling, which made the fracking revolution possible, was done by the U.S. private sector. Nothing has been done on government lands, which is important in terms of

what we'll see has been the flexibility that has characterized this whole process. This relates to the Keystone XL Pipeline issue, where the need for government approval for the pipeline to cross an international border (US-Canada) accounts for the big delay in its being approved.

So far Venezuela is the big loser as a result of the fracking revolution. The company on whose board I sit has seven Gulf Coast refineries. None of them has used imported oil this year from Latin America. The oil came from the United States or Canada.

In addition, U.S. exports of refined products have increased tremendously over the past few years.

Like Venezuela, Brazil is sitting on many billions of barrels of oil. Everyone was touting Brazil as the new Saudi Arabia.

Unfortunately, they've done next to nothing since they discovered the oil reserves off the coast in very deep water. They are busy divvying up the anticipated profits before they've even gotten the oil out of the ground.

They seem to not realize that there's a time frame that is limited. As the famous saying goes, the Stone Age didn't end because we ran out of stones. The petroleum era may end, although I do not think it is going to end any time soon, but when or if it ends, it is not going to be because we have run out of petroleum.

The United States has plenty of petroleum as well as huge amounts of gas. Only a few years ago, however, the conventional wisdom was that we had reached peak gas and peak oil, meaning that, from that point on, our supplies of oil and gas would decline. The opposite has happened and some have been calling the United States the new Saudi Arabia.

This new situation in the United States has implications for Latin America. As everyone points out, Latin America is very well endowed with shale. In the region, Mexico and Argentina have the most.

But the problem is that these two countries have been very slow to develop it. They need the technology as well as capital. Argentina, in particular, is not trusted by foreign investors, although companies are investing if they believe they can make a profit up front.

Regarding Mexico, potential investors are waiting for Mexico to have a better regulatory regime as well as more information regarding the new energy reforms. I do think, however, that Mexico potentially has a very good opportunity to increase its oil and gas production.

The United States has become increasingly globally competitive because it has inexpensive natural gas. As a result, more and more of our companies are switching to natural gas, which has lowered electricity and power costs in general in the United States. In addition, natural gas has half the carbon footprint of coal. So the increased use of natural gas together with higher CAFE standards for US autos have reduced the U.S. carbon footprint.

I do not count on renewables going anywhere very far in the next few years. If you look at Europe, which has mandated the use of a certain amount of renewables, the result has been an increase in its carbon footprint. This is because European countries have needed to use coal to produce the backup energy for the renewables, which produce power only intermittently.

Argentina has a great opportunity to become a major energy provider depending on whom the voters elect as their new president in 2015. The new president would need to state very clearly that there will be more investor-friendly rules of the game that will welcome foreign investment and technology transfer, both of which are needed if Argentina's shale reserves are to be exploited efficiently.

Depending on what happens, Argentina or Mexico could do even better than Brazil in terms of becoming an energy powerhouse, if Brazil fails to make needed reforms. Thank you and I welcome your questions

MR. CHRETIEN: Thank you very much, Susan. Santiago?

MR. LEVY: Good morning. Let me begin by thanking Luis Rubio and Jaime Serra for inviting me to be on this panel this morning.

My remarks will focus on long-term growth and development in South America. I won't speak much about Mexico.

The first point is that the last decade was a very special one for Latin America. Growth was much better than the previous record for the region, partly a result of much better policy. I'm thinking particularly of Peru, Colombia, Chile, Uruguay and Brazil; less so Argentina and Venezuela.

This was partly a result of much better policy on the macro side, and partly a result of good luck. Some of the good luck was already mentioned by Susan. China's boom translated into spectacular growth in commodity prices, including oil, which also benefitted Mexico.

Also, spectacular conditions in international capital markets. If you look at the spreads on EMBI bonds over the 10-year U.S. Treasury bond, it becomes clear that the access that Latin America had to international capital markets over the last 10 years was unusual compared to what it has been in the past.

So a mixture of good luck and good policy implied that the region grew at double the rate that it had grown in the nineties. And forget about the nineteen eighties, which was basically a lost decade.

This good news translated into what are actually underestimated but very important news in terms of poverty and inequality. Poverty fell in half in Latin America over the last decade. Inequality was reduced.

It's still the case that Latin America is the most unequal region in the world, including Africa. Fourteen out of the largest 15 countries with most inequality are in Latin America. That said, the region did make important progress both on the social side as it did on the economic side in terms of growth.

The big question is this: has the region turned the corner? To answer the question it's useful to put the region in perspective and compare it to other regions of the world, particularly East Asia.

I want to focus on three things that I think really matter at the end of the day for long-term development: productivity, savings and integration into the world economy.

If you look at productivity there are important reasons to be concerned about the region's perspectives. Piece of data: from 1980 to 2010 --a good, long 30 years span-- total factor productivity in Asia grew about 60 percent. In the same period total factor productivity in the United States grew about 20 percent. So the Asians did much better than the United States in terms of productivity growth.

In the same period productivity growth in Latin America was actually lower than in the United States and much lower relative to East Asia. So this is a region that in terms of productivity is not doing well; and productivity is of course one of the main determinants of long-term growth.

Why is the region lagging behind in such a fundamental determinant of long-term growth?

Part of the answer has to do with fundamental issues about the production process. I'll speak about human capital and I'll speak about firms and workers.

When you think about education as a fundamental determinant of productivity growth, the data that we have for Latin America show a very worrisome picture when compared with East Asia. Not all countries in Latin America take the PISA program, the Program for International Student Assessment, which give comparable indicators across countries, but some did. The best performers in Latin America are Chile and Uruguay, much better than Brazil, Argentina, Mexico and Peru.

But this is true: only 5 percent of the students in Chile and Uruguay performed as well as 50 percent of the students in East Asia; Korea, Singapore, Taiwan, Shanghai, any country you look at. So there are fundamental flaws in the formation of human capital resources in Latin America, and this is a real important obstacle to long-term productivity growth.

The problem goes beyond education. When workers enter the labor market, what you find is a distinctive feature of Latin America that is also perhaps the strongest enemy of productivity growth: very large informal sectors, perhaps the most underestimated feature of economic structures in Latin America.

More than half of the labor force in Latin America is in the informal sector, and more than two-thirds of firms are also informal. That's true even for Mexico.

The informal sector is enemy number one of productivity growth because firms are tiny, do not exploit economies of scale or economies of scope; there's hardly any labor training, technology adoption and even less innovation.

An interesting piece of data: ninety percent of firms in Mexico have less than five workers, 96 have less than 10, and only 1 percent more than 50.

Productivity growth in Mexico, as in the rest of South America, has stagnated, and when we compare the size of firms in Mexico or Latin America, Brazil, Chile, any country we have data for, with what happens in Korea, Singapore, other countries, let alone China, there's a huge difference.

So, two fundamental determinants of productivity, the quality of human resources and the size and type distribution of firms, are acting against Latin America's prospects.

The second determinant of long-term growth and development is associated with savings. And here the picture is also not very positive.

The country with the largest savings rate in Latin America, Chile, saves less than the country with the lowest savings rate in East Asia.

This partly has to do with the pension systems. It has to do with non-contributory pensions that have grown importantly in Latin America. It has to do with the fact that if you have 60 percent of your labor force in the informal sector, then only 40 percent is putting into pension systems compared to what is happening in other countries. So the generation of long-term savings, particularly denominated in domestic currency for infrastructure investment, is not being generated in economies that are structurally characterized by high informality.

These two flaws, stagnating productivity growth and a low savings rate, are then reflected in the framework of how Latin America integrates into the world economy.

If we compare the composition of Latin American exports in the world economy (Mexico here is the outlier and should be taken away because of its location and Nafta), what you find is that South American economies have very concentrated export patterns.

Even in Chile, more than half of its exports are copper. Brazil, four or five exports make about 80 percent of all exports. I think it is soybeans, meat, iron ore and a couple of other commodities. Argentina's exports are concentrated in soybeans and similarly for Uruguay and Paraguay; Bolivia, gas. So they're extremely concentrated export packages.

Lack of productivity growth makes these countries uncompetitive, and the fact that they have a large natural resource base appreciates their exchange rates and makes them uncompetitive.

Lastly, you have to add a pattern of public spending very much tilted into social areas, with important under investment in infrastructure. Logistics and transport costs are high in the region and make it difficult to integrate more fully in the world economy.

The balance of all of the above is actually a mixed picture. On the one hand, you do have that by and large, although not everywhere, countries have much better macro management than they had in the past. Inflation rates are much lower than before. International reserves are much higher. Countries managed fairly well the 2008-2009 crisis and there was no contagion. So there's a lot of learning and a lot of good news on the macro side.

On the other hand, you have economies that have tremendous challenges on the micro part. To reestablish productivity growth you need deep changes in the economy. These are not issues of Keynesian short-term growth. And this is what the Brazilians have been somewhat confused about over the last 3 or 4 years.

The region's problems are not going to be solved by short run macro management. You of course have to keep doing the macro as you have been doing before, but you have to do much deeper

microeconomic reforms to really take the growth that you need if you want to catch up with East Asia and the rest of the world.

Sadly, if you look at the last fifty years, even though Latin America saved and invested more than the United States, and its labor force grew faster, its income per capita compared to the United States diverged. And the result of ignoring short run macro management issues (which certainly have been important) has been stagnant productivity growth. The region's structural problems have to do with informality, with education, and with the quality of its human capital.

The region, including Mexico, is used to making one-sector bets. Energy will be the magic; agriculture will be the magic; something will be the magic.

But I think the lesson is that you need broad-based growth across the whole economy. To ensure that the advances that the region has made on macroeconomic management can translate into long-term prosperity, you need a much bigger effort at formation of human capital, at labor training, much better designed micro policies. So, to conclude, rather than saying that the glass is half full or half empty, let's just say that at this point the glass is leaking. Thank you.