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Summary Report

The Future of the Americas in Global Governance

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The Council of Councils Americas Regional Conference and the Hemispheric Meeting of Councils on International Relations gathered thirty-seven scholars from twenty-one think tanks from around the world to discuss the role of the region in global affairs. The conference focused on five major issues that shape international cooperation in the Western Hemisphere—and globally—ranging from the cohesiveness of Latin America, regional trade agreements, and the Group of Twenty (G20) to the challenges of organized crime and narcotics and energy security. Participants also enjoyed several keynote addresses delivered by prominent policymakers, including the Mexican minister of foreign affairs, José Antonio Meade Kuribreña, who examined Mexico's leadership in the Americas, and Sergio Werlang, former director of the Brazilian Central Bank, who delivered a presentation on Brazil's economic evolution.

Participants noted that Latin America is a region unified by geography and a shared history. To a degree, it is also united by common culture, values, and challenges. Yet, the individual countries that make up the region remain divided across a broad array of issues. Some participants strongly advised that, if there is to be a meaningful political identity in Latin America, Brazil and Mexico must take on a shared leadership role in the region. While discussing global and regional trade agreements, participants described how, in the face of a stalled multilateral system, regional mechanisms have become more attractive. They debated the implications of this trend, including the risk that the region might become divided between Pacific and Atlantic trade partnerships. As for the G20, participants acknowledged its laudable achievements in addressing the financial crisis and in achieving important reforms in the global financial system. Yet, they also identified a number of significant challenges for the forum and debated whether it could rise to the task of addressing structural imbalances in the global economy.

The participants also discussed the need for a new framework to address the transnational narcotics trade and argued that the Americas will be at the center of global deliberations to address this problem. Finally, they acknowledged the evolving shifts in the international energy market, as long-term consumers like the United States and Brazil become significant energy producers and exporters. Participants concluded that Latin America could benefit from hemispheric energy integration and cited a list of common challenges to be addressed in order for the countries in the region to take full advantage of their energy wealth.

KEYNOTE: *BRAZIL: THE INSTITUTION, THE PEOPLE, THE RESOURCES, AND THE CHALLENGES*

During the opening dinner of the conference, Sergio Werlang, former deputy governor of the Brazilian Central Bank, detailed recent successes and continued challenges confronting Brazil, Latin America's most powerful nation in the twenty-first century. Werlang noted several positive trends in Brazil's socioeconomic development, including the expansion of the working-age population, the economic integration of previously marginalized citizens, and the rising rates of school enrollment and average years of education. He also emphasized that the percentage of the population living under the poverty line has decreased while income disparity has also declined. The primary measure of inequality, the Gini coefficient, dropped from 0.61 in 2000 to 0.52 in 2010.

Werlang acknowledged that Brazil's growing population would increase the nation's demand for energy and, in turn, require that Brazil update and expand its energy production. Enhancing the capacity of the Brazilian energy system to meet the demand could require investment of over $100 billion annually, but Werlang warned that Brazil's inefficient regulatory framework could jeopardize the efficiency of such investments. Nonetheless, he highlighted the successes of Brazil's economy, pointing out that four macroeconomic indicators—inflation, gross domestic product (GDP) growth, foreign direct investment, and the exchange rate—have remained steady, despite the 2008 global financial crisis. He explained that Brazil's inflation target regime and its floating exchange rate regime, among other factors, contributed to the country's resilience during the international economic slump.

Comparing Brazil to other large emerging economies (China, India, Russia, and Mexico), Werlang noted that it ranks higher in multiple facets of political institutions and rule of law, including most (but not all) the rankings of democracy, state legitimacy, human rights and rule of law. By establishing a democratic electoral system, demonstrating respect for human rights, and contributing to international stability, the Brazilian government has earned relatively strong global legitimacy.

IS THERE A LATIN AMERICA?

Defining a Latin American identity is a complex challenge. The concept has its roots in nineteenth-century European rhetoric, which assumed a common identity for the entire region. In reality, however, Latin America comprises a group of diverse nations less united than outsiders often presume. Today, disparate economic and political interests and values have created divergent economic arrangements and distinct political ideologies. Still, countries outside the region have tended to view the hemisphere as a single unit, first as a land of opportunity, then as a battlefield (especially during the Cold War), and more recently as a region with vast potential given its economic revival and democratic consolidation.

Panelists explained that Latin American countries form partnerships with one another both for enduring reasons, such as strategic goals and cultural affinities, but also for more transient reasons, including economic convenience and affinity among leaders. Notwithstanding their common values and challenges, Latin American countries have been unable to reach consensus on a coordinated political approach to cross-border issues.

The OAS is the leading multilateral institution that unites the region, with a membership composed of all thirty-five independent states in the Americas. It is by no means without problems, however. As a multilateral organization based on consensus rather than a supranational body, it can only pursue policies that all its member countries support. Thus, the OAS has sometimes failed because states were unable to craft a coherent agenda.

Participants also pointed to the lack of leadership, and in particular the lack of dynamic cooperation between Brazil and Mexico, as a major cause of the region's disjointedness. Together, these two countries represent 60 percent of the region's GDP and constitute roughly the same proportion of the region's population. Still, despite their power, Brazil and Mexico have not chosen to become leaders for the region. At lower levels of cooperation, such as subregional partnerships, however, the problem of leadership appears less salient. This may help to explain the multiplicity of regional institutional collaborations, ranging from the Union of South American Nations (UNASUR) and Mercado Comun del Sur/Southern Common Market (MERCOSUR) to the Bolivarian Alliance for the Peoples of Our America (ALBA) bloc, Sistema de la Integracion Centroamericana (SICA), and the Pacific Alliance. Participants also debated the significance of the new Community of Latin American and Caribbean States (CELAC), which excludes the United States and Canada and has emerged as an important complement (and in some eyes a rival) to the OAS. The proliferation of regional organizations has arisen because of a shared perception that Latin America should coordinate its participation in world affairs, charting its own course in the absence of heavy U.S. influence. States continue to disagree on how best to reach that goal. Some participants suggested that the failure of the Free Trade Area of the Americas may have undermined the economic rationale for Pan-American cooperation.

Participants generally agreed that the region has changed substantially in the past few decades and that the United States had not yet internalized this reality and adapted its approach accordingly. One of the most important changes, with complicated implications, has been the consolidation of democracy: as democracy strengthens, domestic politics increasingly play a role in regional discussions, and negotiations become more complex. Economic growth in the region has also been a major driver of change: GDP grew more between 2002 and 2012 than in the two previous decades and, in turn, the middle class has grown by an additional seventy million people. Yet, the problem of vast inequality remains, which has led to disillusionment in many countries with the capacity of democracy to deliver on public aspirations.

LATIN AMERICA IN REGIONAL AND GLOBAL TRADE ARRANGEMENTS

The session started with agreement on two beliefs: the contemporary multilateral system is stacked in favor of advanced market countries and the Doha Round seems to be headed nowhere. Given the failure of the WTO-centered multilateral system to advance global trade liberalization, countries have turned to plurilateral negotiations, as well as subregional preferential trade agreements, as second-best solutions. Participants noted the risk that Latin America could be split into blocs, as some countries pursued trade liberalization through forums like the Pacific Alliance, and others, such as the ALBA group, adopted more inward-looking protectionist strategies. The discussion also highlighted the danger that Latin American countries might be excluded from major U.S.-backed initiatives, including the proposed Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP).

Participants added that, despite the financial crisis, global trade has not diminished. Yet, intraregional trade in the Americas remains low and most countries in the region, except Mexico, are not well integrated into global supply chains. Lack of infrastructure, as well as the predominant role of commodities as the principal export for several countries in the region—implying an overspecialization in a volatile source of revenues—is among the main culprits. In other words, intraregional trade lacks both the "software for cooperation" (i.e., commercial architecture, regulations, facilitation, etc.) and the "hardware for cooperation" (i.e., physical integration). Participants cited other factors influencing trade development in the region, including geography, the import substitution model adopted by most countries in the 1970s, and institutional weaknesses, such as the lack of dispute settlement mechanisms.

Participants also considered why Latin America's wealth, as measured as a percentage of global GDP, has not increased. They suggested that implementing pending structural reforms, investing more in research and technology, increasing social inclusion, and adopting policies that increase competitiveness could be influential in creating sustained wealth in Latin America.

With respect to global trade, the participants explained that the most important barriers to trade are discriminatory measures (which comprise 63 percent of trade barriers) and not tariffs (which only comprise 37 percent). Thus, in spite of agreements for tariff reduction, significant obstacles remain in place.

Participants indicated that the design of the World Trade Organization (WTO) is problematic. Many in the room agreed that if the WTO does not undergo a significant review of its current policies, such as updating the rules surrounding trade negotiations, it may become irrelevant for comprehensive international trade liberalization.

GROUP OF TWENTY AND GLOBAL GOVERNANCE

Participants agreed that the creation of the G20 reflected a shift in global relations and global power. It also demonstrated that the international financial system was dysfunctional. The participants explained that the G20 boasts some laudable achievements, such as avoiding a potential crisis like another Great Depression, initiating governance reforms at the International Monetary Fund (IMF), avoiding trade protectionism in the face of the global economic crisis, and advancing regulatory reforms of financial institutions (as with the creation of the Financial Stability Board). Some participants questioned the continued relevance of the G20 in the aftermath of the 2008 financial crisis, while others argued that the forum remains of great value as a standing coordinating body for the global economy. Other participants questioned whether the G20 should expand its agenda, whether it should establish a secretariat, and how to increase its legitimacy, given that 173 United Nations (UN) member states are not part of the forum.

Some participants agreed that expansion of the agenda to incorporate new issues is an inevitable consequence of the G20 being a forum of world leaders. Some also discussed the possibility of adding a "foreign ministers' track" to the G20 summits to deal specifically with the political issues that are unofficially seeping into the agenda at current summits. Others suggested that the G20 agenda could be divided into three areas: traditional economic issues (the financial system), the expanded agenda (e.g., security, energy, food, environment) and "the menu of the day" (e.g., the conflict in Syria).

Implementing new coordination strategies, improving outreach, and pushing for a more positive trade agenda (which until now has concentrated on preventing protectionism), should be important and imminent goals for the G20. Other pending challenges include mitigating risks of financial volatility, global rebalancing, the mutual assessment processes, and major adjustments in financial governance.

ORGANIZED CRIME AND NARCOTICS

Organized crime and narcotics are challenges that transcend the region. But, as Latin America represents one of the largest narcotic producing and consuming regions in the world, it remains at the core of the global debate on these issues. The themes that dominated this debate were potential alternatives to existing strategies to stem the illegal narcotics trade and the political feasibility of reforming the region's hardline approach to drug control, given the skepticism (outside of Uruguay) of most political establishments in the hemisphere toward legalization.

Participants argued that the drug trafficking problem will not end as long as the high demand for drugs persists. Paradoxically, existing regulations and prohibitions have created room for the illicit narcotics trade to flourish, with negative consequences for the region's citizens. The U.S. role in reducing the consumer market was considered an essential element in combating the drug trade and its spillover effects, but the issue is not getting the high-level attention it merits.

Participants also indicated that extortion derived from drug trafficking can generate even greater income than the drug sales themselves. Combating "kingpins," moreover, has only led to a mutation of the problem, not its solution. There are now several local mafias participating in the black market, rather than one centrally controlled organization. One of the resulting security problems is the emergence, or reemergence, of self-defense groups (resembling guerrillas), which enact vigilante justice when local authorities are deemed unable to guarantee security for the population. Participants cited better law enforcement coordination, technology transfers, and exchange of lessons learned as potential avenues to alleviate the problem.

KEYNOTE: *JOSÉ ANTONIO MEADE KURIBREÑA, MEXICAN MINISTER OF FOREIGN AFFAIRS*

José Antonio Meade Kuribreña, Mexico's secretary of foreign affairs, emphasized the strong contribution of Latin American culture to the world, from its historical foundations to contemporary expressions such as literature, music, and cuisine. He indicated that regional integration efforts, while not as successful as cultural accomplishments, are leading Latin American countries in the right direction. Integration no longer solely serves as a code word for ideological aspirations or as a defense against extra-regional ambitions. He stressed that important achievements in this process include the formation of CELAC, the Community of Latin American and Caribbean States. He also noted that Latin American integration would only be feasible if it is pursued as an open, dynamic, and pragmatic option, which can be reached through the participation of the various nations.

Secretary Meade referred to Latin America as one of the most vibrant regions in the world, accounting for 8 percent of the world's GDP and 9 percent of the global population. He said that economic openness and integration efforts have achieved an increase in flows of trade and investment as well as an increase in per capita GDP and a growing middle class.

As a unique integration exercise, he highlighted the importance of the Pacific Alliance formed by Chile, Colombia, Mexico, and Peru. Together, the countries of the alliance represent the eighth economy worldwide, 50 percent of Latin American exports, and more than 35 percent of the region's GDP.

Addressing the issue of global governance, he referred to the G20 as a necessary forum representing both developed and developing countries, indicating that despite doubts expressed by some observers, during the Leaders Summits heads of state have been able to act on both urgent and longer term issues. Secretary Meade stressed the lessons learned from the G20 process, including the need to work closely with all stakeholders involved and the importance of leadership to break multilateral gridlock at critical junctures.

With regard to combatting transnational organized crime and narcotics, he cited the Human Development Report for Latin America 2013–2014, which shows that despite the reduction in poverty levels, Latin America was the only region in the world where homicides increased between 2000 and 2010. He pointed out that strengthening institutional capacities is the main factor in guaranteeing citizens' security. In order to achieve this objective, he maintained that the formation of strategic alliances between the state and nonstate actors and international cooperation are required, as well as a more participation by the communities.

He concluded by stating that despite the region's vast energy, demographic, touristic, and business resources, its economic growth and stability remain below their potential. For that reason, Mexico's integration efforts, at bilateral and regional levels, will remain pragmatic and build on important and hard-fought recent achievements.

ENERGY SECURITY IN LATIN AMERICA

The energy portfolio in the Americas is both vast and diverse. The immense wealth of natural resources is enough to guarantee short and medium-term energy self-sufficiency in the region at a time in which traditional energy supplies are decreasing while demand continues to rise. Participants even suggested that the Americas, rather than the Middle East, are poised to become the next global energy capital.

Nonetheless, multiple factors are hindering the region's energy sector from reaching its full potential. Participants cited the lack of regional integration and cross-border cooperation in the energy sector as particularly problematic and agreed that regional energy integration could bring numerous benefits. For instance, they pointed to the integration of electricity and gas in the region as a convenient way to avoid excess costs. Yet, participants acknowledged that the momentum necessary to establish a more integrated regional market relies heavily on the decisions of governments and multilateral institutions, which are often stagnated in outdated agendas that do not reflect the best course for the current energy reality. This momentum also relies on the participation of the United States and a renewed outlook on the potential of a better-integrated energy market in the Americas as a whole.

Participants noted that with nonconventional resources in the United States, Canada, Mexico, Brazil, and Argentina, the exploitation of shale gas could further enhance the hemisphere's energy production. Shale could stop the price of nonrenewables from soaring in the next thirty years, and the region has five of the ten largest shale reserves in the world. One panelist noted that if the shale revolution takes hold, the center of demand will shift to emerging economies, including those in Latin America. Finally, participants acknowledged that greater governance structures will need to be put in place to avoid the potential "resource curse" problems associated with newfound natural resources.

Yet, controversies over potential consequences of shale exploration (including earthquakes and contamination of water and soil), and in turn the political ramifications for states—especially in a region where states are often intricately tied to the energy sector—were cited as potential impediments to seizing this opportunity. Participants also argued that not enough is being done to tackle the anthropogenic influence of the energy industry. They stressed the need to invest in alternative renewable or clean energy sources (hydroelectricity, bioethanol, biodiesel, and wind and solar power), carbon capture technology, and technology to increase energy efficiency.

Participants concluded by identifying pressing objectives, such as providing alternative and affordable energy for people currently without access. They also emphasized the importance of avoiding a natural resource "trap," and the danger that high prices might lead governments to expropriate private investments. Some participants suggested that, in order to avoid these dangers, priority should be given to deregulation of the energy market and more effective monitoring of governments' commitment to respect the terms of contracts in the energy sector.