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Rediscovering Latin America? Central European Perceptions and Perspectives

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For centuries, knowledge of Latin America in Central Europe[1] was limited to anecdotal accounts provided only sporadically by individual diplomats, explorers, and travelers. With the exception of isolated cases of interpersonal contact, the history of direct relations between countries in Latin America and in Central Europe — Poland, the Czech Republic/Slovakia (Czechoslovakia,) and Hungary — spans the comparatively brief period of the preceding hundred years. It was only after the end of the First World War that Central European countries regained independence and could establish diplomatic relations with their counterparts in Latin America – countries whose own independence had been won during the nineteenth century decolonization process. The time available for the development of foreign relations between these countries was thereby attenuated by the broader forces at work in contemporary geopolitics. During this period, perceptions of Latin American countries in Central Europe have undergone continual growth and reassessment amidst the sea changes that came to characterize international affairs in the twentieth century.

LATIN AMERICA AS A PROMISED LAND

An important collective experience which heavily influenced the image of Latin America in the Central European public consciousness was the mass emigration from Poland, Hungary, the Czech Republic, and Slovakia to Latin America during the course of the late nineteenth and early twentieth centuries. For many of these immigrants, Latin America represented a promised land. Searching for jobs and opportunities, tens of thousands of Central Europeans then took a long voyage to Argentina and Brazil. This migration, coupled with subsequent, though less numerous, movements of political exiles following the Second World War, has left an indelible mark in the form of Central European immigrant communities in Latin America. Indeed, these communities are estimated to consist of approximately 1.5 million persons today[2]. The immigrants contributed to the development of Latin American countries, and their descendants — an embodiment of the shared history of the two regions — now represent significant reservoirs of human capital which must not be forgotten when building interstate relations between both Latin America and Central Europe.

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[1] Central Europe is understood in this paper in its narrow meaning, as a region covering four countries, members of the Visegrad Group: Poland, Slovakia, the Czech Republic and Hungary. Broader definitions can also be found in literature on the subject, where Central Europe is seen as including, in addition to those four, also Austria, Germany, Slovakia, Switzerland, and even Croatia and the Baltic states.

[2] This is a rough estimate. Based on various studies, it can be assessed that the Latin American population includes some 1.2 million Poles and people of Polish descent, some 200,000-240,000 Hungarians and several dozen thousands of Czechs and Slovaks.

VENUE OF IDEOLOGICAL CONFRONTATION AND THE "THIRD WORLD"

With the outbreak of the Cold War, the nature of international relations changed for decades to come. Central European countries, as part of the Soviet bloc, maintained privileged ideological relations with selected partners from Latin America, particularly Cuba, and had a well-organized diplomatic presence in other Latin American countries. Moreover, the appearance in Central Europe of modern Latin American literature, beginning in the late 1970s, established an extremely important communication channel by which the broader public attempted to develop an understanding of the lived experience of Latin Americans.

Perceived largely as a proxy battlefield for the confrontation between the socialist and capitalist blocs, the region began to be linked in Central Europe with the emerging conception of the "Third World" in the wake of the disintegration of the colonial empires. This identification of Latin America with the "Third World" and the developing countries that comprise it, still endures in Central Europe — in both elite and popular political discourse — thus constituting a challenge for Latin American diplomats who are often compelled to explain to their interlocutors that, for example, the per capita GDPs of several countries in their region is, in fact, comparable with metrics for Poland, the Czech Republic, Slovakia or Hungary.

BETWEEN ADMIRATION AND MARGINALISATION

The democratic transitions of the 1990s opened up a completely new era of relations and perceptions. Looking for best practices, Central European countries found insights in the experience of Latin American countries. In spite of some important cultural, political and institutional differences, there were notable similarities between economic conditions and the need for demanding accountability from former oppressors. So, in the 1990s, regime change in Central Europe was intensively discussed with an eye toward the lens of the Latina American experience. For example, high regard for the Chilean transition in Poland actually led to an effort to emulate Chilean policy principles in crafting the Polish pension system.

Paradoxically, an appreciation of democratic transitions in Latin America did not translate to a broader expansion of bilateral relations between the two regions. This was because integration with the Euro-Atlantic structures (the EU, NATO) proved to be the overriding foreign policy goal for the Central European states, pushing Latin America to the sidelines. At the end of the day, contacts with Latin America suffered from that change, as was clearly visible in the closure of some embassies, infrequent high-level visits, declining university and academic contacts, shifting priorities in policy-oriented research topics, and a lack of money and fellowship opportunities for research.

TO LATIN AMERICA VIA THE EUROPEAN UNION

In 2004, the Czech Republic, Hungary, Poland, and Slovakia joined the European Union – an organization with close, longstanding ties to Latin America. Consequently, as part of the process of adjusting to EU policies and integrating with EU decision-making mechanisms, those states were thereby naturally compelled to dedicate more attention to Latin American affairs.

Undoubtedly due to the plethora of the EU's institutionalized contacts with Latin America (EU-CELAC summits, sub-regional meetings with Mercosur, the Andean Community, Central America, association treaties with selected partners), the Central European states' EU membership has contributed to a greater frequency of direct political contacts with Latin American states. The importance of this development cannot be overstated. Direct engagement tends to foster opportunities for both political and economic cooperation which otherwise might have gone untapped.

With the adoption of common trade policy rules and instruments, and also as a result of free trade areas, access to Central European markets for Latin American industrial goods has improved, leading to a growth in trade and elevating economic relations to a position where they became the subject of serious discussions and comments. And finally, cooperation within individual sectors of the economy presents opportunities for new forms of partnership.

As part of an almost ten-year-old exercise in EU membership, the Central European states' policy towards Latin America has become more and more "Europeanized". The region is being explored using the EU's instruments and mechanisms of cooperation. Sometimes, the all-EU approach towards Latin America may produce disenchantment and complaints about the inefficacy of the bi-regional formula (EU-CELAC summits). Occasionally, this may even provoke anger when longstanding EU member states seek to monopolize Latin America-related decision-making processes. But this is not to say that the Central Europeans are only passive recipients of EU policy. What they have injected into the relationships with Latin America is sensitivity to human rights and to the observance of democratic principles. This was exemplified in the position on EU policy towards Cuba presented in the EU forum by Poland and the Czech Republic jointly with other member states, such as Sweden, the Netherlands and Germany. Central Europe-related themes have increasingly cropped up in the economic relations between the EU and Latin America, thus enhancing the opportunities available to the new member states for influencing the EU's policy towards the region.

BUILDING NEW PERCEPTIONS AND NEW RELATIONS?

After years of embracing a foreign policy approach focused on Europe, the US, NATO, and their immediate neighbors, the Central European states are now slowly reassessing their perceptions of, policies towards, and relations with, regions outside Europe and the broader transatlantic area.

These reassessments have been impacted by EU membership, but in today's globalized, interdependent world, an equally strong impulse for change comes from economic and business considerations. The growing muscle of Central European companies, the search for new markets and for new sources of growth — these are the factors that prompt businesspeople and decision-makers to not confine their itineraries to Asia, but to include Africa and Latin America as well.[3]

For example, the Czech Republic and Hungary scored considerable successes in their exports to Latin America, and Slovakia managed to attract a number of promising investments from Brazil. In Poland,

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[3] One example is a Polish US$3 billion investment in Chile, made by the extractive company in copper sector KGHM in 2012.

which has the largest demographic and economic potential and opportunities for exerting external influence, calls have increasingly come for the globalization and economization of foreign policy.

As present, it is primarily in the context of economic interests that Central Europe looks to Latin America (with the exception of Cuba). An interesting development is the emergence of the Pacific Alliance, an open-ended grouping that seeks not only the economic integration of Columbia, Chile, Mexico and Peru, but also more intensive economic ties with Asian partners. On the other hand, a cause for concern and a factor to be taken into account in economic calculations — alongside public security — is the future and the eventual shape of the rather protectionist bloc Mercosur.

Latin America is starting to be perceived in Central Europe as a rapidly developing market with a growing presence in the world. There is an emerging awareness that it cannot be seen as a homogenous region when designing political, commercial, or investment strategies due to the many economic, political, social and cultural differences of its composite countries. Yet, much work remains in order to abandon outmoded Central European perceptions of the region, to realize untapped human potential, and to pursue international development through fostering interpersonal contacts, economic links, and mutual interests between both regions.

Is There a Latin America?

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Continents are defined by geography. Thus, Africa is a land mass surrounded by water, Europe is a land mass west of the Ural mountains, while the Americas are two land masses – North and South – separated by the Darien Gap. In contrast, Latin America cannot be considered a continent since it is not a defined geographical area. Instead, Latin America' is a geopolitical construct defined, not in and of itself, but in opposition to something else.

When the term was first used, by Catholic intellectuals in Paris in the 1850s, Latin America referred only to the former Spanish America and was defined in opposition to Protestant England and the rising power of the United States. It did not—and was not intended to—include Brazil, which in turn did not think of itself as part of Latin America at that time.

Thirty years later, in the 1880s, Latin America was redefined by the United States, this time to include Brazil. This new 'other' included all the independent countries south of the Rio Grande. It included Haiti, but not Martinique; the Dominican Republic, but not yet Cuba or Puerto Rico. Seventeen Latin American republics were then invited to Washington DC in 1889 for the first International Conference of American States) where Secretary of State James Blaine proposed that Latin America join the United States in a customs union. His initiative failed, but he did succeed in establishing what would become the Pan-American Bureau.

Brazil was not thrilled about its inclusion in this new definition of Latin America, but went along with it anyway. It could not afford to be isolated from hemispheric discussions. These discussions became increasingly heated in the early 20th century as the expansionary and aggressive behavior of the United States sparked Latin American opposition. The climax was reached in Havana in 1928 at the Sixth Pan-American Conference, where Latin America was almost united in opposition to U.S. imperialist policies in the region. By the time of the next conference, in Montevideo in December 1933, the adoption of the Good Neighbor Policy by President Roosevelt had calmed the opposition.

The Ninth Conference, held in Bogotá in 1948, converted the Pan-American Bureau into the Organization of American States (OAS). This was a stormy affair because it coincided with the assassination of Jorge Eliécer Gaitán. It was also the moment when the United States was at the height of its power in the Americas and was able to convert Latin America to the anti-communist cause in the Cold War. Thus, the OAS from the moment of its birth was an instrument of U.S. power in the service of anti-communism.

As such, it was used against Guatemala in 1954, Cuba after 1959, the Dominican Republic in 1965 and many others. The United States never acted alone on these occasions, but it usually had to fight hard to achieve the majority that it needed. From the U.S. point of view, the OAS served its anti-communist purpose, but it was slow to develop other functions during the Cold War and played no role in tackling military dictatorships, human rights abuses or promoting rule of law.

The end of the Cold War left the OAS without purpose or a clearly defined mission. Soon thereafter, efforts were made by the U.S. and other American states to add new functions. As a result, the OAS can now claim that it is dedicated to the promotion of democracy, human rights, security and development. It includes bodies such as the Inter-American Commission on Human Rights and regularly sends observers to monitor elections in the region. At its most recent summit in Guatemala, it even explored new ideas on anti-narcotics policies in the Americas.

All of this ought to have left the OAS in a strong position. However, it has not done so for various reasons. The main problem is that the work of the OAS does not reflect the interests and aspirations of the Latin American states themselves. Their efforts to re-incorporate Cuba as a full member have been stymied by U.S. opposition. (The eventual compromise on this issue was not satisfactory for anyone.) The initial solidarity of all member states against the military coup in Honduras in 2009 was later undermined by U.S. unilateralism. Some member states, particularly Venezuela, have attacked the OAS for interfering in their internal affairs. However, it has played a useful role on some occasions, for example in dealing with the adjacency zone between Belize and Guatemala, but these occasions have resulted in modest achievements.

In addition, the U.S. is no longer the hegemonic power in the region to the same extent as it was in 1948. There has been a steady imperial retreat that shows no sign of being reversed. The U.S. vision of a Free Trade Area of the Americas failed to gain traction. Its refusal to lift the unilateral sanctions against Cuba has left it looking increasingly isolated. It is not involved in any way in the peace talks between the Colombian government and the FARC. Yet, when the U.S. does act in an imperial fashion, for example by spying on Brazil, it earns huge opprobrium.

The result of this hegemonic decline has been the creation of a vacuum that the ‘other’ has not been slow to fill. However, responses have been mainly sub-regional rather than regional. Thus, in recent years, we have seen the emergence of a whole host of bodies catering to sub-regional needs. These include different regional integration schemes (either new or reborn) such as MERCOSUR, SICA and NAFTA, conservative organizations such as the Pacific Alliance as well as radical ones such as ALBA, and bodies such as UNASUR that include all South American states with governments from the left and the right. There are even specialist institutions for the Amazon Basin and Meso-America.

The closest we have to a Latin American political identity is CELAC – the Community of Latin American and Caribbean States. It includes all independent countries in the Americas except Canada and the United States. It therefore embraces Cuba. Yet this manifestation of the ‘other’ is still very weak. It is incoherent and the reason is obvious. There is nothing for this ‘other’ to be opposed to! Of course, if the U.S. were to invade Mexico or bomb Brazil, that would be a different matter. CELAC would come of age. That, however, is fortunately not going to happen.

We are therefore left with the sub-regional bodies to express Latin American interests and here the picture is very mixed. These have done a good job in resolving inter-state conflicts, such as between Colombia and Ecuador after the Colombian raid on the FARC camp across the border in 2008. They have also helped to block disruptions to the democratic process in some countries, notably in Paraguay in 2012. However, they have been much less effective in promoting human rights and the rule of law in the sub-regions for which they are responsible.

The reason for this is the traditional opposition in Latin America against interference in the affairs of a sovereign nation (the United States, by contrast, has no such tradition). Thus, governmental interference in the judiciary or media does not normally bring a rebuke from the sub-regional bodies to which the country concerned belongs. MERCOSUR, for example, has been silent about the abuse of judicial power in Argentina, while ALBA has said nothing about press freedoms in Venezuela.

All this will change in time, but in the interim we are left with a series of sub-regional organizations that are limited in what they can achieve. Indeed, there is something of a Darwinian struggle going on at present, in which only the fittest will survive. Some, such as the Andean Community, have already withered. Others, such as MERCOSUR, are in crisis, while ALBA remains vulnerable to whoever is the presidential incumbent in Venezuela – yet alone to the price of oil.

Much will depend on Brazil, the most important country in Latin America and one of the top ten economies in the world. Brazil has been reluctant to play the role of regional hegemon and, indeed, is not even comfortable being called a 'Latin American' state. It does, however, aspire to a permanent seat on the United Nations Security Council and that imposes duties as well as rights. Brazil has been active in UN missions, especially in Haiti, and has pursued a vigorous agenda outside the Americas in pursuit of its global ambitions. However, Brazil is currently going through a period of introspection that may not be quickly resolved. And, without Brazil playing a leading role, neither CELAC nor UNASUR will be able to represent Latin American interests.

How does the outside world see all of this? For the United States, Latin America is both an opportunity for trade and investment as well as a source of threats stemming from illegal immigration and narcotics. There is not much strategic thinking in relation to the region (though the bilateral relationship with Mexico is different). The U.S. is not ready to share the hemispheric stage with Brazil and the feeling appears to be mutual. For the European Union, Latin America is a giant 'emerging' market on which high expectations are placed. China, on the other hand, claims it wants not just trade and investment, but a strategic relationship as well. However, it is still not clear exactly what China means by this.

For the rest of the world, Latin America is still of limited importance. For Japan, Latin America is mainly about trade. Russia's presence in the region is growing and Brazil is part of the BRIC group, but this will never have a strategic role. Relations between Africa and Latin America are generally good, but based almost exclusively on trade. For the Middle East, Latin America is a potential competitor in the field of energy exports with several countries outside of OPEC.

In conclusion, while there is certainly a Latin American cultural identity, there is much less of a political one. This is not particularly surprising in light of the difficulty finding common ground among such a large group of countries with different interests. Latin America is only united when in opposition to something outside and there is no threat or even challenge at present that meets such a requirement. Instead, Latin America is a collection of countries with variable geometry. These sub-groups come together very effectively on some issues and much less so on others. Unless or until Brazil emerges as a regional hegemon, this is likely to continue.

Plurilateral trade agreements between the EU and Latin America: precursor to WTO revival?

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EU BILATERALISM

To boost global competitiveness of its industries, the EU is pushing regulatory convergence as a policy objective in trade talks with emerging markets and industrialized nations alike. The aim is to sign deep and comprehensive FTAs (DCFTAs). Increased standardization, harmonization of laws, and mutual recognition are important elements of such DCFTAs (with, e.g., Korea, Singapore, Japan, Canada, and negotiations with the U.S. on a TTIP, with China on investment, etc.).

The EU's strategy of enhanced bilateralism may have a considerable effect on the future of the WTO. As Jagdish Bhagwati has argued, the preference of WTO members to replace the multilateral, non-discriminatory trade liberalization negotiation system of the Doha Development Round with the conclusion of preferential trade agreements (PTAs) among small groups of countries may affect the other two pillars on which the WTO is built: its rule-making authority and its dispute settlement mechanism (DSM).

With regard to the WTOs rule-making authority, if indeed the PTAs like the EU's DCFTAs are the only game in town, then the broad templates established by big trading powers like the EU in agreements with economically weaker countries will increasingly carry the day.

Whereas big emerging economies like Brazil, China, India, and South Africa were able to insist on rejecting additional demands (that is, extending beyond conventional trade issues to areas like labor and environmental standards) when made as part of the multilateral Doha round, the EU and the United States may more effectively push for including such issues in bilateral negotiations.

Proponents of such agreements maintain that the bilateral practice of the EU refines WTO rules and may even influence the development of special branches of international law.

With respect to the dispute-settlement mechanism, the so-called pride of the WTO, the proponents of the DCFTAs contend its rules on arbitration follow the letter and the spirit of the WTO Panel system to a very large degree. However, one can also argue that the adjudication of disputes through the PTA-based dispute settlement mechanisms will reflect asymmetries of power that benefit the stronger trade partner, in particular, because the economically weaker countries will have little bargaining leverage.

In the interest of an impartial and binding multilateral trade system, and in a strategy to get the WTO negotiating track unstuck, plurilateral trade liberalization talks between emerging and industrialized economies could be the way forward. Great hopes are vested in the talks on the Plurilateral Agreement on Trade in Services, of which the EU is one of the 21 WTO negotiating partners. The EU is pushing for the agreement to comply with WTO rules so it can be multilateralized at a later stage. In a similar vein, the U.S. and other TPP countries have proposed TPP disciplines on, inter alia, subsidies that contribute to overcapacity and overfishing, potentially lighting the way for a WTO multilateral agreement on fisheries subsidies.

INTERREGIONAL AGREEMENTS BETWEEN EU AND LATIN AMERICA

It is worth noting that the EU has concluded interregional PTAs, foremost with Latin America, such as the well-documented 2008 Economic Partnership Agreement with CARIFORUM, the Caribbean Forum of (15) African, Caribbean and Pacific States.[4]

Moreover, in June 2012, the EU signed a comprehensive Association Agreement Central America,[5] i.e. with Honduras, Nicaragua and Panama. Since 1st October 2013 Costa Rica and El Salvador have joined the agreement. Guatemala is expected to join very soon. Belize and Mexico are excluded from the definition of Central America by the EU. Belize is part of the CARIFORUM agreement; Mexico has its own bilateral agreement.[6] The EU's key economic policy objective for Central America is to strengthen the process of regional integration between the region's countries. In practical terms this means the creation of a customs union and economic integration in Central America. The EU has supported this process through its trade agreement and its trade-related technical assistance in the region. The trade part of the Association Agreement is in force since 1 August 2013. This will open up markets for goods, public procurement, services and investment on both sides. EU imports from Central America are dominated by office and telecommunication equipment (53.9 percent) and agricultural products (34.8 percent in 2010). The most important exports from the EU to Central America are machinery and transport equipment (48.2 percent) and chemicals (12.3 percent).

In sharp contrast to the above-mentioned plurilaterals, Brussels has had to shift gears to the bilateral track in several cases, including the Andean Community and Mercosur.

Negotiations between the EU and the Andean Community (Bolivia, Colombia, Ecuador, and Peru) were launched in June 2007 for a comprehensive Association Agreement between both regions.[7] Its objective was to enhance the political dialogue, to intensify and improve cooperation in a vast variety of areas and to enhance and facilitate bi-regional trade and investments. The agreement was negotiated on a 'region-to-region' basis in order to provide further impetus to the regional integration

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[4] http://ec.europa.eu/trade/policy/countries-and-regions/regions/caribbean/ Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Lucia, St Vincent and the Grenadines, St Kitts and Nevis, Suriname, Trinidad and Tobago. The EU is CARIFORUM's second largest trading partner, after the US. In 2011, trade between the two regions came to over €8 billion.

[5] http://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/

[6] http://ec.europa.eu/europeaid/where/acp/country-cooperation/belize/belize_en.htm

[7] http://ec.europa.eu/trade/policy/countries-and-regions/regions/andean-community/ The EU is the second largest trading partner of the Andean region after the US. Trade with the EU was worth 14.3% of the total trade of the Andean Community in 2010. The Andean countries export predominantly primary products including agricultural products (38%) and fuels and mining products (54%) to the EU. The EU exports consist mostly of manufactured goods, notably machinery and transport equipment (50%), and chemical products (19%).

process in the Andean Community, seen as a key to foster stability, progress and economic and sustainable development in the region. It was also aimed to help to insert this region in the world economy by developing larger and more stable economies able to attract investment. The European Commission adopted an aid package of €713 million for the period 2007-2013 to assist the region and its countries to address the most important challenges they face. Following a breakdown of negotiations in the second half of 2008, a new negotiating format was put in place offering a thematic and geographical split of the talks: continued regional negotiations with the Andean Community as a whole on political dialogue and cooperation, and 'multi-party' trade negotiations with Andean Community countries willing to embark upon ambitious and comprehensive trade negotiations compatible with WTO. The latter started with Peru, Colombia and Ecuador in February 2009. The negotiations ended successfully in March 2010 with Peru and Colombia. However, Ecuador decided to suspend its participation in July 2009 due to its disagreements on topics such as public contracts, intellectual property, and services.[8] In June 2012 the EU signed a comprehensive Trade Agreement with Colombia and Peru. The agreement is provisionally applied with Peru since 1 March 2013 and with Colombia since 1 August 2013.

Finally, plurilateral trade relations between the EU and Mercosur[9] (Argentina, Brazil, Paraguay, Uruguay, Venezuela; Paraguay has been temporarily suspended) have been in preparation for years. In 2000, the parties opened negotiations for a bi-regional Association Agreement including three chapters: political dialogue, cooperation, and trade. Negotiations were suspended in 2004 over fundamental differences in the trade chapter. The parties agreed that the target date for the conclusion of these negotiations was to be 31 October 2004. This target was missed and the talks were suspended. Relations were nevertheless advanced, notably with the signature, during the EU-Mercosur Summit of Lima in 2008, of an agreement to expand relations to three new areas, science and technology, infrastructure and renewable energy.[10] The comprehensive trade negotiations with Mercosur were officially re-launched at the EU-Mercosur Summit in Madrid on 17 May 2010. The objective is not only to cover trade in industrial and agricultural goods but also services, improvement of rules on public procurement, intellectual property, customs and trade facilitation, and technical barriers to trade. Nine negotiation rounds have taken place since then. Until now, talks have focused on the part of the agreement related to rules and the two regions are still working on the preparation of their market access offers. No date has been set yet for the exchange of market access offers.

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[8] http://www.fta-eu-latinamerica.org/fta-eu-peru/

[9] http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/ The EU is Mercosur's first trading partner, accounting for 20% of Mercosur's total trade. Mercosur is the EU's 8th most important trading partner, accounting for 3% of EU's total trade. EU's exports to the region have steadily increased over the last years, going up from € 28 bn in 2007 to € 45 bn in 2011. Mercosur's biggest exports to the EU are made of agricultural products (48% of total exports) while the EU mostly exports manufactured products to Mercosur and notably machinery and transport equipment (49% of total exports) and chemicals (21% of total exports). The EU is also a major exporter of commercial services to Mercosur (€13.4 bn in 2010) as well as the biggest foreign investor in the region with a stock of foreign direct investment that has steadily increased over the past years and which now amount to €236 bn in 2010 compared to € 130 bn in 2000. The EU has bilateral Partnership and Cooperation agreements with Argentina, Brazil, Paraguay, and Uruguay.

[10] http://eeas.europa.eu/mercosur/index_en.htm

PLURILATERALISM

WTO rules show an ambivalent view towards plurilateral agreements. They are recognized by Article II.3 of the WTO Agreement, which provides that plurilateral agreements are part of the overall agreement "for those Members that have accepted them, and are binding on those Members" but the article specifies that these agreements "do not create obligations or rights for Members that have not accepted them."

Arguably, for the plurilateral strategy to revive the WTO trade liberalization track to succeed, all plurilateral agreements should remain faithful to WTO objectives, focus on important trade issues (e.g. agricultural protection), rely on the dispute settlement mechanism established by the WTO, and remain open to other WTO members wishing to join in the future. Efforts toward more ambitious goals for trade liberalization should only be undertaken once the main stumbling blocks to system-wide rules have been cleared. Through their power of attraction, such a plurilateral agreement would widen the geographical remit in which WTO-compliant free trade rules are applied.

If the EU is serious about pursuing a twin-track approach toward the removal of tariff and non-tariff barriers, then it should complement its current strategy of enhanced bilateralism by embracing plurilateral efforts at trade negotiations by others.

Latin America in Regional and Global Trade Arrangements

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The "stylized facts" about Latin America's recent economic performance are these. Fuelled by the global boom in demand for natural resources, the past decade saw economic growth reach levels not seen since the 1960s. But unlike the previous era(s), this time strong growth was accompanied by equally impressive advances in equality and social indicators of development. Indeed, if the results contained in this year's Human Development Report are correct, advances in the Human Development Index (HDI) in many Latin American countries were faster than what might have been predicted based on a historical correlation between income growth and the index. Bolstered by social policies (particularly in Brazil, Chile, and Mexico) that are widely seen to be innovative, efficient, and effective, Latin America's HDI (0.741) is second only to that of Europe and Central Asia among developing regions, and is higher than the global average.

The decade-long boom has ended. Current growth and its projections are fractions of what have been witnessed recently. The expectation, more than just hope, is that with sounder governance and institutions in place, poverty and inequality will not regress *pari passu* with declines in economic growth. This is because many good policies such as sound macro-economic management and the highly regarded cash-transfer programs are "locked in" via the virtuous circle of democratic government, enabled populations and a growing and educated middle-class.

This is not the same as saying the era of risk is over in the region. All the major national and multilateral think tanks have at one point or another warned about the risks carried by (in particular) environmental degradation, and built-in limits to social mobility in many countries. To this daunting list one might add the effects of mismanaged financial sectors in developed countries (still a factor) and continued or accelerated slow-down in China, Western Europe, and the U.S. The latter is not entirely an exogenous risk, for Latin American countries with the exception of Mexico remain dependent on trade in commodities with the rest of the world, with little value-added done at home, and (still) little diversification away from the primary sector. In short, the region is a classic example of the outcomes of Dutch disease.

With this background, what room remains for either regional or multilateral trade to continue to underpin Latin America's economic and social development?

Global trade itself is not in crisis. A remarkable dog-that-didn't-bark aspect of the current economic crisis is the resilience of trade flows and lack of any major trade disruptions in the past five years. For a group still looking for a landmark success, the G20 should be given some credit for having averted outright trade wars through the statements and actions of its leaders. But the global economic crisis is not over; indeed it is becoming entrenched in the economic and political fabric of many countries. If the quantitative easing programs in the U.S, Europe, and Japan result in a currency war, then the WTO will have to insert itself into the macroeconomics and global finance domain, in which it has historically been absent. Although the WTO cannot influence how these programs play out, it has to be ready to respond to currency-based trade conflicts should they occur.

The WTO's dispute settlement mechanism is a success. The number of cases brought to it and the range of countries using it speaks to this. But the Doha Round has become a millstone around the neck of multilateralism in trade.

The Uruguay Round provided a perverse impetus to the development agenda by yielding disappointing results for developing countries in a range of issues—intellectual property, investment, agriculture and services—that went well beyond the emphasis in previous Rounds on simple tariff reduction. These concerns and the creation of the World Trade Organization (WTO) with its dispute settlement mechanism set the stage for the Doha ("Development") Round, launched in the shadow of the 9/11 attacks in November 2011. But if this Round was supposed to be about winning "hearts and minds" by demonstrating the inherent advantages to developing countries of belonging to the liberal global economic order, it has failed. While the definitive assessment of why this is the case has yet to be completed, it appears that the rich countries could not bring themselves to make the sorts of changes to the status quo that the post-Uruguay Round development agenda implied, while developing countries, now with a clear set of "emerging" countries among them, still saw themselves as uniformly poor and deserving of concessions likely due only to a smaller number among them.

At the start of 2013, some 546 notifications of regional trade agreements had been received by the WTO, of which 354 were in force. The challenge posed by countries voting with their feet and fleeing the multilateral arena for regional (including bilateral) ones cannot be met by clinging to Doha. It would be best to disassemble the Doha agenda, and demonstrate the usefulness of the WTO as a negotiating forum by showing progress on a specific issue.

A cold hard look at the "single undertaking" approach that has characterized multilateral trade negotiations since the start of the Uruguay Round in 1986 is in order. The current list of issues that might be tackled via the trade regime route is an impressive and daunting one. It includes intellectual property, investment, climate change, and technology transfer. Each deserves to be treated on its own merit rather than being part of a grander, fruitless bargain of the sort that got us into the Doha mess in the first place.

More broadly, the WTO has to take the lead in re-building the constituency for multilateralism in trade. Here the WTO might draw lessons from the IMF and World Bank, each of which have impressive training, research, and outreach arms. Through these avenues, a global constituency for these institutions and the issues they work for has been built in ways that has not been the case for the WTO.

The most compelling research showing the ill effects in developing countries of protectionism in agriculture in developed countries has come from Oxfam and the World Bank—not the WTO.

Not surprisingly, because most Latin American countries specialize in producing raw materials and agricultural products, intra-regional trade in Latin America is low—historically in the 15-20% range of total exports. Only Africa and the Middle East have lower proportions of intra-regional trade to total trade. Therefore, the scope of regional trade arrangements to contribute to either trade or broader development is limited—of necessity, these arrangements are about reducing tariffs and therefore, using Diana Tussie's descriptor, are "shallow."

Driven by a broadly more liberal global trading environment, improvements in information and communications technologies, and in some cases active policies to join in, the biggest trend in global trade recently has been the growth of intra-industry and intra-firm trade i.e. global supply chains. A significant portion of the recent growth in world trade has been in intermediate inputs, components, and related services. The growth in supply chains is dependent on the cross-border movement of capital and knowledge. The global value of the stock of foreign direct investment rose more than six-fold in the last decade or so; local sales by foreign-owned firms was about US$26 trillion in 2012, as compared to $18 trillion for world merchandise trade.

Among developing countries, those in Asia and Europe dominate in the phenomenon of global supply chains. Mexico is the only Latin American country that is prominent here. And yet, this is the way global trade—and with it employment and technology transfer, for example—is headed.

For Latin America to fully benefit from international trade and continue to make gains in the nexus between trade, incomes, and development, a focus on a streamlined but re-energized WTO-led trading system, and participation in so-called trade in tasks, appear to be the most promising ways forward.

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Latin American Regional and Global Trade Arrangements

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A review of Latin America's long-term performance shows a region that has been essentially stagnant in comparison to the rest of the world. In 1965, Latin America accounted for 5.6 percent of global Gross Domestic Product (GDP). Forty years later, in 2005, it still only accounted for 5.7 percent, leaving the region no better off in relative terms after forty years. In contrast, Asian countries - the Newly Industrialized Countries (NICs), China and India - continue their march towards convergence with developed economies. This data was derived from a study of the Corporación Andina de Fomento (CAF), Development Bank of Latin America, entitled "Latin America 2040. Breaking Away from Complacency: An Agenda for Resurgence" (2010)

Latin America has yet to achieve a sustained growth rate to catapult it to developed status. This is what international reports such as CAF call "the middle income trap." Middle-income countries require a strategy for high, sustained growth to reach the next level.

Several factors have had a significant impact on these dynamics: the rate of investment as a percentage of GDP is one of them. On average, Latin America has a lower ratio compared to China, India, the NICs and Developing East Asia. Additional factors where Latin America is behind other regions include technology and innovation, infrastructure, quality of education, etc. It is important to note that the informal economy in Latin America is very large. All of these factors are reflected in its competitiveness.

The Global Competitiveness Index (GCI) 2013-2014, which is published by the World Economic Forum, shows that Asian countries occupy higher positions than Latin American nations with few exceptions. Chile is the only nation in Latin America that is ranked among the top 35 of 148 countries. Mexico (55), Brazil (56), Peru (61) and Colombia (69) are also above the global average. Nevertheless, we need to compare both ranks and dynamics: in the last 6 years (compared to 2007-2008 and 2013-2014), Peru jumped 25 positions in the GCI, Brazil moved 16 positions, and Venezuela dropped 36.

The conclusion is that, in economic terms, Latin America is not completely homogenous. Moreover, the diversity of situations is not just between countries but also within countries. In several countries of Latin America, the monetary poverty rate has fallen significantly: in the case of Peru this rate has gone from including 55% of the total population at the beginning of the first decade of 2000 to representing 26% in 2012. Nevertheless, inequality, social inclusion, and decentralization continue to be core challenges. The benefits of globalization must reach the majority of the population, cover both urban and rural areas, and evolve in a framework of decentralized development on a country-to-country basis. In this regard, a great deal needs to be done.

SOME KEY STRATEGIC ELEMENTS ARE:

- Pursue a path of openness to the global market: international commerce is playing an increasingly important role in income growth. There is a correlation between economic growth and foreign trade.
- Global integration that prioritizes our relationship with the most dynamic zones in the world: it is reasonable to believe that Latin America should gradually reduce its dependence on slow-growth economies in North America and Europe (diversification), as well as develop closer ties with Asia, the fastest growing region in the world, and the Pacific Basin in particular.
- Improving the export mix by increasing the weight of added-value exports. At the same time, focus on becoming successful at managing natural resources, such as countries like Australia, Canada, Norway and New Zealand, which register high per capita GDP levels and, at the same time, report high levels of natural resource exports as a percentage of total exports.
- Take better advantage of the potential offered by regional integration by renewing approaches and implementing the most effective strategies.
- Close the infrastructure gap and the transportation gap in particular to ensure connectivity with national, regional and global markets under competitive conditions. Poverty and isolation from markets are correlated.

In terms of trade agreements, it is necessary to keep in mind that, with regard to trade negotiations, the multilateral disciplines of the World Trade Organization are already included in national legislation. Using this as a foundation, countries or groups of countries can develop agreements that entail greater depth and different levels of commitment to access markets and better trade rules. Slow or stagnated multilateral negotiations lead parties to seek out other means to make faster progress toward trade liberalization.

In Latin America, we have moved from a South-South trade agreement phase (between Latin American countries) to a new stage where agreements are signed with developed countries. Mexico has been a pioneer in this type of agreement, with the North American Free Trade Agreement (NAFTA). Chile, Peru and Colombia have also followed this path. Peru, for example, has 19 free trade agreements (FTA) that have either been signed or are in effect. These agreements cover already 95% of its foreign trade.

Nevertheless, the greatest challenge on the global trade agenda is to ensure progressive convergence, coherence, and a deepening of all the bilateral and plurilateral agreements that have been signed between different countries around the world. Along these lines, the Trans-Pacific Partnership (TPP) could complement, and even advance, the WTO trade regime. In effect, trade that is not covered by a bilateral or multilateral FTA between the countries that are currently negotiating the TPP constitutes a minority in comparison to trade that is covered.

THE REPORT

"The Trans-Pacific Partnership Negotiations and Issues for Congress", CRS Report for Congress of the United States (April 2013) indicates that "the current 12 TPP countries already form part of a growing network of intra-Pacific FTAs. The United States has FTAs in place with six of the TPP countries: Australia, Canada, Chile, Mexico, Peru, and Singapore. In addition, the proposed TPP seeks to build on the existing Trans-Pacific Strategic Economic Partnership (P-4), an FTA among Brunei, Chile, New Zealand, and Singapore. The current TPP partners also include 4 of the 10 members of the Association of Southeast Asian Nations (ASEAN): Brunei, Malaysia, Singapore, and Vietnam. All 12 TPP negotiating partners are also members of the 21-country Asia-Pacific Economic Cooperation (APEC) forum, which does not negotiate FTAs among its membership, but serves as a forum for dialogue on and establishes non-binding commitments toward the goals of open and free trade and investment within the region". So, the TPP is potentially a regional agreement that can be used as a platform to achieve a Free Trade Area of the Asia-Pacific (FTAAP). Nevertheless, under this perspective, the fact that China is absent from the TPP constitutes one of the relevant issues that may need to be addressed.

In the context of globalization, what role does regional Latin American integration play? The result of 50 years of regional integration since the establishment of the Latin American Free Trade Association in 1960 (ALALC in Spanish) in terms of intraregional trade is as follows: in 2012, the share of intraregional trade in total exports of Latin America was 18% with variations between the Andean Community (7%), the Southern Common Market -MERCOSUR (17%), the Central American Common Market (21%) and South America as a whole (almost 22%), according to the Data Base of the Institute for Integration of Latin America and the Caribbean (INTAL).

So, why isn't intra-regional trade higher? One important factor is of course the fact that raw materials represent a significant amount of Latin America's total exports to the rest of the world, but this is not the only factor. The lack of integration of regional infrastructure also plays an important role. We need to act simultaneously on the so-called *software* and *hardware* of integration. These terms were coined by the Inter-American Development Bank in its "Sector Strategy to Support Competitive Global and Regional Integration" (2011). What is the software? First, trade architecture: the region needs to advance in the convergence and improvement of FTAs already in place; second, trade regulations: policy action needs to tackle the growing costs generated by non-tariff barriers; third, trade facilitation, logistics, and trade and investment promotion to foster private sector internationalization.

And what is the hardware? It entails physical integration: investment projects for regional connectivity, particularly in transport infrastructure, upgrade of ports, logistic platforms, etc. The objective is to reduce transport costs, which will foster competitiveness and promote decentralized development. At present, transport costs are definitely much more important than tariffs. This is true for global and regional integration. In South America in particular, physical integration has renewed concepts of regional integration in the last decade due to the Initiative for the Integration of Regional Infrastructure of South America (IIRSA), created in 2000, in the first summit of South American countries.

The Pacific Alliance's creation in 2011 is another initiative that has renewed approaches to regional Latin American integration. First, integration is not necessarily based on proximity and is instead more about the compatibility of policies for trade openness and investment. Second, new approaches value creating both a broader market and taking advantage of the fact that these nations border the Pacific. Indeed, this location gives them a unique position from which to build a joint strategy to approach the Asia-Pacific market—a market which is the 21st century's most dynamic basin. I believe that South America's physical integration and the Pacific Alliance can complement one another. This is one of the current challenges of regional Latin American integration.

Group of Twenty and Global Governance

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What does global governance mean for practitioners? Global Governance is a concept that encompasses the diplomatic efforts of state and non-state actors, within the international system, that aim to achieve solutions to crucial issues through dialogue, negotiation, consensus, and compromise. The concept, by its very nature, excludes coercion, the unilateral use of force, and relies strongly on international law and international institutions. Global governance does not necessarily pursue "uniformity," but requires at a minimum that a basic level of human rights and fundamental freedoms be respected by today's most powerful state actors.

WHICH HAVE BEEN THE MAIN ACHIEVEMENTS AND DEFICIENCIES OF THE G20?

I will divide my answer to this question into two parts. The first has to do with the Group of Twenty (G20) as a formal mechanism. The G20 is a closed, loosely-organized multilateral group that gathers under the same roof the world's most influential countries in the hope of solving urgent problems on the global agenda. The fact that countries of different cultures, levels of development, political regimes, and endowments of natural resources can gather together illustrates shifts in the world's balance of power and perhaps the nature of power itself. It was the complexity of these issues in the first place that prompted countries to exhibit the will and the determination to engage global problems in a democratic atmosphere. This is, in my view, the most significant achievement of the G20 and suggests a more delicate management of international affairs in the future.

The second major achievement of the G20 has also been a substantial one—to reveal the dysfunctional behaviors of many state and non-state actors that hamper equality, inclusion, and real progress for the majority of people. Of these practices, the most noticeable are government corruption, tax evasion, tax havens, and artificial trade barriers. Recently, the G20 introduced active and open discussion about how to boost growth and jobs, trade, development, and investment—in lieu of focusing solely on fiscal consolidation. This implies real progress vis-à-vis past agendas. Discussing these issues with academics, select institutions of the press, and a few government agencies will hopefully create a conducive environment for a more democratic decision-making process. Let's hope that we are truly headed in the right direction.

WHICH ARE THE PRIORITIES OF THE THREE LATIN AMERICAN MEMBERS IN THE G20?

Focusing on the general attitudes of the three members, it seems quite clear that Brazil and Mexico consider the G20 useful in sustaining their paths to becoming "global powers." Both are great countries and have the capacity to be so going forward. Argentina, with a smaller population, less privileged geographical position, and a comparatively isolated geopolitical position, seems satisfied to remain a "global actor" and a very active one, as it has traditionally been. Yet there is a considerable gap between a "global actor" and a "global power." Also, there remains a huge gap between being a "global power" and having "global responsibilities." The latter exists when other actors in the international system are not surprised if you intervene in different parts of the world without necessarily accepting the benefits of that intervention.

At various international fora, such as the United Nations, Argentina can find common ground with countries such as Australia, Canada or New Zealand with relative ease. Similar to Argentina, these are states with enormous territories, seemingly limitless natural resources, small populations, democratic governments, and reasonably sophisticated industrial and cultural bases. These, indeed, are our region's "BRICS." There is a degree of immediate consensus on matters such as disarmament, human rights, peacekeeping, and the Millennium Declaration "ideology." Turning to institutional memberships, Mexico participates in the OECD, NAFTA, and Pacific Alliance, while Brazil associates itself with the BRICS. Yet all three Latin American countries nonetheless pay special attention to other emerging countries, seeking as wide a range of interaction as possible. There are commonalities between emerging countries on matters pertaining to job creation, trade, financial reform, base erosion profit shifting (BEPS), food security, and consistency between macroeconomic and labor politics, among other issues. Interestingly, due to its relative isolation, Argentina is not expected by financial markets to "behave" in a way similar to that of other states with comparable attributes (for instance, on the issue of tax havens).

What remains clear is, despite the fact that the three Latin American members of the G20 "play" on somewhat different fields, the level of communication and dialogue between them is very intense. Mexico is deeply committed to the future of Latin America and probably will deepen its commitment under Mr. Peña Nieto's mandate. Argentina and Brazil, as South America's greatest powers, will undoubtedly preserve their historical friendship and reciprocal bilateral interests in Mercosur. Nevertheless, there is little room for complacency. In this regard, the feeble attachment shown to Western values in Latin America is disturbing. For instance, using organizations such as UNASUR, ALBA or CELAC to weaken the OAS and foster anti-American sentiment, instead of promoting regional integration and communication, is a gross and counterproductive mistake. To court dictators or autocrats is both politically and morally wrong. To criticize Western values and human rights is tantamount to reading today's signals incorrectly. It seems as though we no longer know on "which side" we should be on regarding very substantial matters. Let us not overlook the simple fact that refugees—first from Libya and now from Syria—seek refuge in countries With western values and not, if possible, elsewhere. Indeed, "declinist" attitudes toward Western culture are contradicted by facts brought about by thousands of people every day. This misunderstanding is one reason why Latin America is fractured by different integration efforts and cannot speak with a unified voice on major issues. We need to remember that commercial alliances are normally volatile, whereas strategic ones are inherently stable because are enshrined in institutional, cultural, and geographic elements and traditions that are very difficult to alter. Assuring a fruitful relationship with our Western institutional, cultural, and geographical backyard is important, even while trade patterns are shifting.

HOW CAN THE GROUP INCREASE ITS LEGITIMACY FROM THE POINT OF VIEW OF A NON-MEMBER?

Formally, legitimacy can be improved through more open communication, periodical summit invitations to relevant countries, and civil society's more active involvement in the organization's work. The G20 began in 1999 in the aftermath of the Asian financial crisis and subsequent economic crises in Brazil and Russia. It was planned as an informal body bringing together ministers of finance and heads of central banks (Martin Wolf, F.T.) to discuss the crisis. Its "visibility" at that time was quite low. When the crisis deepened, it was through the initiative of George W. Bush (Washington, November 2008) that presidents and prime ministers were invited to participate. The result was positive because it increased media scrutiny, transparency, and of course, legitimacy. But legitimacy is dependent on efficacy, and as such the former can only be achieved if we actually connect the work of the G20 to the voice and needs of average citizens and to the dynamics of the international system. The voice of the people is the voice of millions of unemployed deprived of human security. The voice of the system argues for a different paradigm based on equality, responsibility among state and non-state actors, and the reform of corrupt and dysfunctional elements of the G20 that have been brought to light. In making this argument, I do not fear being labeled a "Wilsonian Idealist" or a "late moment" follower of Pope Francis.

SHOULD THE G20 EXPAND ITS AGENDA BEYOND MACROECONOMICS AND FINANCES?

During the latest meeting of the G20 in St. Petersburg (September 6, 2013), emerging nations and the BRICS jointly adopted a declaration opposing military intervention in Syria. The initiative was spearheaded by Prime Minister Putin. The fact that the G20 has already expanded its agenda was confirmed once again. The expansion of the agenda started as the result of high-level meetings in Washington, Pittsburg, and London. World leaders assumed that everything is interconnected and that the crisis has its roots in the failure of leadership by governments in a number of areas, such as the financial sector. Since then, the expansion of the G20's agenda has grown increasingly apparent; in recent years it has included a number of diverse issues such as nuclear disarmament, the Libyan Civil War, the Syrian Civil War, Iran, hunger and malnutrition, humanitarian crises, and more. The "expanded" agenda is here to stay and rightly so. It would look extremely awkward for presidents and prime ministers to be discussing, for instance, mainly their degree of influence in the IMF while ignoring massive human tragedies happening just next door.

Group of Twenty and Global Governance

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WHAT HAVE BEEN THE MAIN ACHIEVEMENTS AND BIGGEST SHORTCOMINGS OF THE GROUP OF 20?

The G20 has emerged as the main institution of international economic coordination. The organization has developed a broad agenda ranging from macroeconomics to reform of financial sectors. National regulatory practices are being refocused on the transition to new models of growth, on implementation of structural reforms, and on decreasing the acuteness of social misbalances. Participating countries are actively implementing a substantial number of recommendations, particularly regarding the G20's financial agenda.

At the same time, the G20 has not yet established a system for monitoring and assessing the implementation of its own recommendations and countries' compliance with their obligations. The organization has made steps in this direction (including at the St. Petersburg summit), but prospects for appreciable success remains distant. Expectations for the G20 have been frustrated by the inability of its members to effectively market the Group's actions.

Also, there is a growing understanding that bottlenecks are limiting the effectiveness of the organization. This in turn creates an impetus for the further development of this international institution.

The G20's strengths and weaknesses alike reflect a bigger picture – the transition of the global economy to its new structure. This structure will last at least until the end of this decade, and a successful transition without the G20 is difficult to imagine.

WHAT ARE THE PRIORITIES OF THE THREE LATIN AMERICAN G20 MEMBERS?

The concerns of these countries are understandable given the fact that their economies are still developing. Also, Brazil is the member of BRICS. There would be substantial interest in hearing about their positions on the following issues:

There would be substantial interest in hearing about their positions on the following issues:

- The reasons for slower growth in developing economies;
- The implications for these countries posed by nontraditional monetary policy and future "exit strategies" of developed countries;
- Factors determining currency policy;
- Influence of possible emergence of future Trans-Pacific and Trans-Atlantic multilateral free trade zones on the structure and content of foreign economic relations;

- Prospects for the regionalization of the global economy;
- The activities of national development institutions and the like.

HOW CAN THE GROUP ENHANCE ITS LEGITIMACY AMONG—OR AT LEAST TO—NONMEMBERS?

The problem of legitimacy should be addressed first of all by the members. The focus should be on the implementation of recommendations which have already been adopted, i.e. their implementation on the national jurisdiction level.

To a large degree, this depends on the relationships between governments, businesses, and civil society. The intensity and productiveness of the dialogue here will hinge on the degree to which there is full awareness of the activities of the G20. In this regard, things are far from perfect. The content of "the G20 process" should be comprehensible in real time by all stakeholders. However, the outreach formats have begun to address this issue.

Nonetheless, such efforts are insufficient to support sustained interest in this area even among the expert communities of the participating countries. Official representatives as a rule are satisfied with the outreach formats. Responding to the proposals which arise out of them has not been overly burdensome, and technical recommendations have been limited.

Over the past five years, we have seen that the G20 does not have any formulated national lobbies. Ideally the G20 needs to have its own Davos – an international public platform to sum up the results of the most recent presidency, and to be continued on an annual basis through a series of regional and specialized forums.

SHOULD THE G20 EXPAND ITS AGENDA BEYOND MACROECONOMICS AND GLOBAL FINANCE, OR EVEN ADD A FOREIGN MINISTERS TRACK?

The artificial limitation or expansion of the G20 agenda would be unwise and counterproductive. Changes in the agenda should be a rational process reflecting the dynamics of the relatively lengthy transition of the global economy to its new structure.

Satisfactory progress has not yet been achieved on all of the provisions of even the initial anti-crisis agenda. Reform of the IMF quota allocation remains incomplete and its prospects remain unclear.

At the same time a substantial number of solutions have been developed by, for example, the Financial Stability Board, which are being implemented within national jurisdictions in clearly established and agreed upon terms.

At present, an approach has emerged by which the G20 must first fulfill its initial mission to propose a path to reducing macroeconomic and global financial risks and establishing a kind of "safety net" for new crises.

The F20 is steadily moving in this direction – even within the framework of its specialized agenda there is an inclination to reduce the number of issues discussed in half from the usual five or six.

From the point of view of raising the effectiveness of the financial track this may be probably justified. However, the experience of the G20 has shown that quite frequently discussion lines outside the F20, for example, the exacerbation of social and labor imbalances in all the member states, provide a more profound understanding of the tasks of the macroeconomic agenda and financial sector reforms.

The real problem is not in the number of issues discussed on various tracks and meetings of leaders but rather in the degree to which the issues are interconnected and complimentary in substance and in the lack of commonly accepted rules for changing the G20 agenda.

The G20 adopts action plans every year, and their timeline horizons are expanding. The plan approved at the summit in St. Petersburg clearly has a medium-term perspective. But it is both possible and necessary to move further, and increase the degree to which the agenda is integrated. In this regard, attention should be given to the position of the colleagues from Australia on the issue of developing G20's own coordinated strategy for global economic growth. The implementation of the St. Petersburg action plan could provide further impulse for this idea. Clearly, this will take time. But this will represent a much higher level of international economic coordination, the agenda of which will be determined by the execution of a common strategy.

The summit in St. Petersburg showed that despite all the "buts" (the discussion of possible solutions to the Syrian crisis was initiated by the leaders themselves, etc.), the foreign ministers' format can be productive, as subsequent developments proved.

If the focus is on a permanent foreign ministers' track, then it would need to have its own subject matter for discussion and consultation, but this has not yet been identified.

Perhaps it would be valuable to consider non-financial challenges and risks to the global economy which require the coordinated actions of the G20 in terms of collective diplomacy: conflict resolution in current hot spots and conflict prevention in potential hot spots, common approaches to cybersecurity, risk reduction for maritime trade routes, preparation for new climate initiatives, humanitarian aid, etc.

The G20: Past Achievements, Unfinished Business, and Future Prospects

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SIGNIFICANCE

The G20 is the most significant advance in global economic governance since the end of the Cold War. It is the only consultative forum that brings together, in an exclusive manner, the heads of government (or state) of the world's leading advanced and advancing economies. The elevation of the G20 to leaders' level in November 2008, in the throes of the global financial crisis, was a watershed moment. It reflected an awareness on the part of Western powers that henceforth the management of the global economy would require close coordination with major emerging economies.

ACHIEVEMENTS

The high watermark of G20 collaboration was arguably during 2009, in the London Summit and Pittsburgh summits of April and September, respectively. To forestall an all-too plausible second Great Depression, G20 members injected unprecedented liquidity into the world economy (including pledges of $5 trillion in London); reinvigorated the mandate and war chest of the IMF; upgraded the toothless Financial Stability Forum into a Financial Stability Board (FSB) to improve regulation of cross-border financial institutions (including those deemed "systemically important"); adopted "standstill" provisions to prevent a descent into tit-for-tat trade protectionism; began negotiating governance reforms to the "shares and chairs" of the IMF and World Bank (agreed in principle in 2010); and started to negotiate new capital account requirements for major international banks (achieved under the Basel 3 agreements).

INERTIA

As the initial crisis faded and an uneven "3-speed recovery" began to take hold globally, however, divergent national interests began to come to the fore, contributing to a sense of drift in the G20. The forum has found it difficult to make the transition from a crisis committee to a more enduring steering group for the global economy. Summits themselves have become increasingly scripted, making it hard for leaders to enjoy intimate and free-flowing discussion—a dilemma compounded by a membership which has swollen to include heads of major international institutions, regional organizations, and select invited national guests. Despite rhetorical commitment to a focused agenda, summits have become sprawling affairs focused less on breaking critical bottlenecks than on minutiae that could best be left to working groups. This trend was symbolized in the lengthy, 27-page communique (accompanied by a 200 page annex) that the leaders released at the end of the St. Petersburg meeting. Instead of a concise document offering clear guidance and direction, the sprawling communique included lots of "noting" and "affirming."

UNFINISHED BUSINESS

When Australia inherits the rotating chairmanship of the G20 on December 1, it will find a body that is rudderless, at a time when the world economy remains vulnerable to instability and recession. There are at least six items on the G20's "to do" list:

1. *Global recovery remains uneven and disappointing*, particularly in the developed world: The United States has enjoyed steady if unimpressive growth, whereas the eurozone has only just emerged from six consecutive quarters of contraction. In July, the IMF downgraded predicted growth among the major emerging market economies, including China, India, and Brazil. Japan was the sole bright spot, but it remains uncertain whether "Abenomics" will include politically painful steps to carry out structural reforms and liberalize Japan's economy.
2. *Financial volatility remains a concern*: Emerging market economies have repeatedly complained that "unconventional" monetary policies pursued by Japan, the Bank of England, and particularly the United States (QE1,2,3) have exacerbated instability in emerging markets—and that the unwinding of these policies threatens to have the same impact. Like accusations over "currency wars" more broadly, this dispute points to the need for more harmonization of national macroeconomic policies, including efforts to account for the potential spillover effects of national efforts.
3. *Global imbalances are likely to persist*: One of the avowed missions of the G20 is to ameliorate the longstanding structural imbalances between chronic surplus and deficit countries. There has been some tentative progress along these lines, including appreciation of the yuan and the narrowing of some current account imbalances (including the U.S. trade deficit). But much of this may reflect cyclical factors associated with the global slowdown, in the form of low aggregate demand from Western nations. China also continues to pursue a high-investment, low-consumption path, despite President Xi's pledges. Within the eurozone, the gap between German discipline and profligacy on the periphery persists.
4. *Incomplete implementation of the Mutual Assessment Process (MAP)*: The MAP was intended to create a true peer review system, allowing G20 members to collectively assess the negative "spillover" consequences of national policy choices. But the process has proven toothless. In principle the IMF is well-placed to play this watchdog, supervisory role, but G20 members remain resistant to being called out on their irresponsible policies.
5. *Failure to follow through on IMF governance reforms*: In 2010 the United States showed impressive leadership in forcing through an agreement to shift the executive board chairs and quota shares within the International Monetary Fund to benefit EMEs, at the expense of Europe. But these reforms—which also included a doubling of overall IMF quotas—have not been implemented, because the U.S. Congress has failed to pass the required legislation. Although the shifts are revenue-neutral (simply transferring funds the United States had already contributed to the NAB to the U.S. quota share), the issue has gotten caught up in partisan wrangling on Capitol Hill. The result, as IMF Managing Director Christine Lagarde notes, has been to damage the Fund's credibility and U.S. global financial leadership.
6. *Failure to offer a substantive trade agenda*: The G20 has offered little in the way of a positive trade agenda, beyond ritual incantations at successive summits of the need to complete the Doha Round of WTO negotiations. The St. Petersburg summit was little improvement in this regard. The final communiqué recommitted G20 governments to maintain "standstill provisions." Its

only forward-looking provision was a promise to seek a deal on trade facilitation during the December 2013 WTO ministerial in Bali—a meeting that may be the last chance to salvage Doha. Given the hurdles to a comprehensive multilateral trade "rounds," the future of trade liberalization is likely to be a combination of "plurilateral" preferential trade agreements (such as the U.S.-championed TPP and TTIP), complemented by a disaggregated approach within the WTO, whereby a subset of countries move forward on a narrower range of sectors or issues (such as investment, or public procurement).

THE CASE FOR A FOREIGN MINISTERS' TRACK

The biggest issue at St. Petersburg—how to respond to chemical weapons use by the Syrian government—was obviously not something on the formal agenda. The United States engineered a separate communique on this issue, among a subset of eleven G20 members, albeit of varying levels of commitment. This will not be that last time that matters of "high politics" and international security intrude onto the G20 agenda. Similar things have of course happened in other ostensibly "economic" forums, from APEC to the G8. Given this reality, there is a strong case for the G20—which has from the start been dominated by finance ministers and central bank governors—to create a parallel track led by foreign ministers. Such a standing diplomatic network could meet on an emergency basis to handle rapid onset crises. But it would also provide a forum to try to find common ground on a variety of political and security matters (including issues of proliferation, terrorism, and regional security), as well as to air differences in approach. Such a body could provide a useful venue to address climate change, since its membership is largely the same as the existing Major Economies Forum (MEF).

To date, G20 leaders have resisted expanding the group's remit beyond traditional economic issues like monetary and fiscal policy, financial regulation, trade liberalization, and development. While understandable, that approach is untenable over the long term. Finance ministries, of course, would love to keep their leadership over the G20 and its annual summits. Beyond defending bureaucratic turf, they are understandably at loath to see their heads of state or government spread themselves too thin by trying to address an ever-expanding agenda. But the simple truth is that foreign affairs is not easily segmented between the economic and the political. Experience suggests that when world leaders get together for a few precious hours of conversation, they are not inclined to limit themselves to the formal agenda.

A G20 foreign ministers track, which seems inevitable, could help manage the G20's increasingly sprawling agenda, while ensuring that leadership for issues (like climate change) that have significant diplomatic ramifications are placed in the hands of foreign ministries. Such a foreign ministers' track would build on an initial, "informal" meeting of foreign ministers convened during the Mexican G20 Presidency. As with the finance ministers track, the day-to-day work could be conducted in mid-level working groups, with issues teed up for leaders-level decisions only when required to break deadlocks. Such a reform would bring the G20 closer to the original "Leaders-20" grouping envisioned by former Canadian Prime Minister Paul Martin.

Skeptics might argue that placing potentially sensitive political and security matters on the G20's plate is counterproductive and likely to accentuate diplomatic disagreements among the group's diverse members. This critique is worth taking seriously. After all, the Group of Eight (G8) has survived as a forum in part because it unites (with Russia partially excepted) a likeminded group of advanced democracies that take similar stances on matters like human rights, democracy, and the rule of law.

But the major limitation of the G20 is that it omits many of the most important players in today's emerging world order, including rising powers like China, India and Brazil, important regional pivots like Turkey and Indonesia, and potential bridge-builders like South Korea. Their support will be necessary to address a range of global problems, from nuclear proliferation to global warming, to regional instability.

There is a world of difference, of course, between creating a forum to discuss the world's most pressing non-economic challenges and actually ensuring collective action to resolve them. But surely the primary purpose of diplomacy is not to reinforce a preexisting consensus among the like-minded, but rather to try to bridge differences among the un-likeminded.

Organized Crime as a Threat to Stability

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Of all illicit drugs currently available, cocaine and heroin are among the most potent. They are also the two most closely associated with high levels of conflict and instability, not least because they can only be cultivated to virtually any scale in ungoverned spaces where criminality and insurgency most easily thrive.

Drugs are not the only commodity trafficked by criminals, but their immense profitability, and the fact that there is virtually no limit to the ways in which they can be trafficked, mean that they remain an import element in the revenue of criminals, insurgents, and terrorists. Below are examples related to drug producing and trafficking regions:

During the 1980s, Colombia faced a challenge from powerful vertically integrated cartels, which subverted the institutions of the Colombian state and posed a direct armed challenge to the state's authority. This was followed by a major insurgency by the *Fuerzas Armadas Revolucionarias de Colombia* (FARC) whose involvement in the narcotics trade enabled them to move from a position of strategic irrelevance to one where they posed an existential threat to the survival of the state itself. Colombia has succeeded in reducing these threats to manageable proportions but at enormous cost:

- A defense budget that still consumes 4.5 percent of GDP,
- An internally displaced population of 4 million,
- A massive opportunity cost in terms of economic development foregone (it is estimated that the past 30 years of conflict have cost the Colombian economy between 2 and 3 percent of GDP each year) and
- Substantial sums set aside to compensate the victims of violence.

In addition, while levels of cocaine production have declined, the cocaine trade and its associated criminality are far from eradicated, and coca cultivation has increased in neighboring Peru as a result of the so-called 'balloon effect'.

States affected by the drugs trade face a choice between (1) allowing their institutions to be comprehensively subverted or (2) to counter with force and all that entails in terms of corresponding violence and instability. A good example of this is Mexico, which for many years operated a symbiotic relationship with trafficking groups controlling a business worth_$14 billion per year. The decision of Mexican president Calderon to end this symbiotic relationship has had dramatic consequences in the form of two wars now taking place: one between the government and traffickers and the other between trafficking groups. This has resulted in tens of thousands of drugs-related deaths since 2006 and a pervasive culture of intimidation by narcotics traffickers.

The violence has spilled across borders in Central America which has taken over from the Caribbean as the principal smuggling route for drugs destined for the U.S.A. Between 2007 and 2010, the amount of cocaine trafficked to the U.S.A via Central America went from 1 percent to 95 percent. Levels of drugs-related violence rose accordingly. In El Salvador, Guatemala, and Honduras, drug-related homicides are four times higher than in Mexico, and higher even than these figures were during the civil wars of the 1980s.

WHY PROHIBITION AND LAW ENFORCEMENT HAVE FAILED TO CURB THE ILLEGAL TRADE IN NARCOTICS

In 2008 then United Nations Office on Drugs and Crime (UNODC) Director-General Antonio Maria Costa outlined the unintended consequence of the prohibition-driven drug control system, which includes: (1) creation of a powerful black market, (2) balloon effect, (3) lack of respect for individual countries' situation, (4) human rights violations, and (5) limited access to drugs for medical use.

Overall, the "war on drugs" has penalized weak states in the developing world by placing disproportionate focus on disrupting narcotics supply while not assigning enough responsibility to consumer nations in the developed world for curbing their own demand.

For decades, drug law enforcement has been focused on the ultimate goal of reducing the size of the illicit drug market by eradicating drug production, distribution, and retail supply. In addition, in a number of Latin American countries, law enforcement has undergone a process of militarization, for example in Mexico and in the Northern Triangle, in order to contain unprecedented levels of crime-related violence. This approach has hindered the fight against narcotics trafficking. In particular, President Calderon's militarized approach to cartels has prompted an even more violent response from the cartels, translating into extremely brutal attacks, often at the expenses of the civilian population. Moreover, assigning additional powers to the army has resulted in both corruption among army ranks and competition between the armed forces and the police. The "mano dura" approach has also fragmented the major criminal syndicates which, in practice, only partially weakened the organizations and made violence more unpredictable, hence more difficult to predict and contain.

Law enforcement strategies generally remain driven by easily quantifiable metrics such as seizures and arrests instead of by the goal of managing drug markets in a way that minimizes the range of harmful impacts on communities, including in relation to corruption and financial crimes. This is a serious weakness of law enforcement (within and beyond the Western Hemisphere) given that the type and levels of drug market-related violence depends largely on the nature of the drug market. This is often shaped by law enforcement's response to it.

PARALLELS BETWEEN THE WESTERN HEMISPHERE AND OTHER REGIONS AFFECTED BY THE NARCOTICS TRADE

The 'balloon effect' has seen some very fragile states in West Africa become deeply implicated in the international drug trade. The volume of narcotics flowing through West Africa has been growing since the late 1990s, when customs agencies and police began interdicting an increasing percentage of drug traffic from Latin America to Europe, thus creating demand for new routes. Traffickers needed more secure and effective channels into a rapidly expanding European market, and weak governance, corruption, and poverty made several West African countries ideal candidates.

Drug trafficking has led to wholesale corruption and the emergence of what some scholars have called 'junky' economies in which the revenues from the drug trade supplant legitimate economic activities. Countries such as Ghana, which seemed well on the way to meeting its Millennium Development goals, may now fail to do so because of the damaging effects of the drug trade. Furthermore, in part of West Africa, drug gangs have earned a degree of popular consent by providing social welfare facilities beyond the capacities of the state, an approach already pioneered by Pablo Escobar in Medellin, Colombia, in the 1980s.

If the problem is not tackled effectively, some international law-enforcement officials based in the region fear that West Africa could become another Mexico. Mexico, like West Africa, became a conduit for drugs after other routes were effectively closed off by interdiction.

Other parallels can be drawn. Both regions have areas in which the central government has little or no control and where the police do not venture. Two examples in West Africa are Accra's slums and northern regions of Ivory Coast. These are ideal areas for traffickers and other criminals to operate and hide, and territory where they can amass considerable local power and influence. As mentioned above, drug barons are often able to provide local communities with services that the state cannot supply, for instance building infrastructure and churches and providing support for the poor. As in Mexico, many West African law-enforcement agencies and judicial systems are inherently weak and open to corruption. Gang rivalries have become more evident as more drugs have been shipped through West Africa. After Mexican officials visited Ghana in 2009 with gruesome pictures of drug-cartel violence in their country, Accra was concerned enough to begin cooperating more closely with international law-enforcement agencies. However, the region has not yet seen the levels of drug-related violence experienced in Mexico, and two things may ultimately prevent West Africa from going the same way.[11] First, its gang culture is different. West African gangs tend to come together for merely opportunistic reasons, whereas membership in Mexico is much more tied into a broader social identity. Second, there is still time to act before West African gangs feel the need to resort to violence to protect their turf.

Potential for destabilization deriving from West Africa's drug problem should not be exaggerated. The region is not a homogeneous block, which complicates any attempt to compare it to Mexico. Drugs have arguably worsened security problems in the region, rather than giving rise to them. However, the drug trade has the potential to further destabilize fragile countries which are prone to corruption and are in many cases still in the midst of post-conflict transition.

One lesson that has yet to be learned from the (negative) experience of the Western Hemisphere is reflected in the way the drug trade and its effects have been tackled thus far. Most international

[11] Nevertheless, the 2012 coup in Guinea-Bissau was clearly linked to the narcotics trade. Later the U.S. charged the coup leader with drug trafficking. In addition, former navy chief Admiral Na Tchuto had previously been designated by the U.S. as an international drug kingpin and was also arrested.

support to West Africa has been aimed at improving law enforcement training and equipment, as well as border control. An important part of dealing with the problem, however, lies in education, rehabilitation, and helping governments to foster alternative livelihoods for their people. Notably, these are all areas that receive inadequate attention while the focus remains on interdictions and arrests.

The problems linked to the dramatic surge in drug trafficking through West Africa over the past decade have prompted Kofi Annan to establish the West Africa Commission on the Impact of Drugs on Governance, Security and Development (WACD) in January 2013, which takes inspiration from the Latin American Commission on Drugs and Democracy and the Global Commission on Drugs Policy.

An Agenda of Convergence to Reconcile Energy Security and Sustainability

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SUMMARY

Even with both enhanced energy efficiency efforts and the mid-century stabilization of the world population, the world's energy demand will continue to increase. The greatest demand will be related to between 2 and 3 billion of the world's inhabitants ascending to a middle class income and to the corresponding increase of the global per capita income. The major uncertainties are focused on an energy supply that can cover the demand. The energy mix will be different, according to prevailing ideologies and interests in the energy security paradigm, or the imposition of the priorities and restrictions of the sustainable energy paradigm. In the short term, arguments of a secure supply will dominate, regardless of the source and its origin, but the social, environmental and material restrictions of a secure energy mix will have to be reconciled with a transition agenda, balanced with sustainability. The abundance and diversity of present and potential energy resources in the Americas allows us to lead, starting from a hemispheric integration agenda, to pursue a global transition from the security paradigm to the sustainability paradigm. The lack of an agreed-upon regional and global roadmap will increase the risks that the dominant short-term views will subject us to unpredictable and ultimately unacceptable consequences.

LIFE QUALITY REQUIRES ENERGY

With the year 2010 as a base, the World Energy Congress predicts that the world's population will multiply by 1.4 until the end of the twenty first century (it will stabilize in 2050 at 9.1 billion inhabitants); the world's GDP will multiply by 10 and energy consumption will multiply three-fold.[12] The data indicates a relative improvement in the quality of life of many persons across the globe who will ascend to middle class levels of income. World energy demand will therefore continue to increase. One person in the developed world today consumes an average of 14 barrels of petroleum per year, while a poor inhabitant from the emerging world consumes only 3, and one from a middle income country 6 barrels per year. One household today consumes an average of 40 percent more energy than in 1970, above all due to the increased use of air conditioning and different information communication technology (ICT) devices. Today, in a world of more than seven billion inhabitants, there are one million cars. Estimates suggest that this number will rise to 2 billion by 2030. Is this consumption pattern, without changes in the energy diet, which today eighty one percent depends on petroleum, carbon mineral, and natural gas (fossil energy), sustainable?

[12] FERIOLI, Jorge. Desafíos de la Energía. Presentación del Congreso Mundial de la Energía. 18-11-11.

EFFICIENCY, THE CHEAPEST SOURCE

One point of convergence between those who prioritize energy security and those who advocate for energy sustainability is the necessity to continue pursuing policies that promote the efficient use of energy. The average global energy intensity rate (which relates a consumed energy unit with a GDP unit), was 1 three decades ago, and is now 0.70. The productivity of energy use has improved since the oil crisis of the 1970s and might continue to improve. With policies of subsidy reduction in prices for fossil fuels and specific means to encourage the diffusion and use of saving and rational use technologies (in industry, transport, construction and households), in two decades the average intensity rate could be reduced from 0.7 to 0.5. Everything that is done on the side of the demand to *"de-energize the economy"* is beneficial to energy security and sustainability. Nevertheless, there is as of yet no converging agenda regarding the implementation of short, middle, and long- term energy efficiency goals. A central point of this agenda is the elimination of subsidies for fossil energy, which many governments continue to promote. Those subsidies hinder efficiency and discourage investment in alternative energies. A recent research of the IMF including 170 countries shows that the subsidies to the final energy prices (including price reductions and tax allowance) total 2.5 percent of the global GDP and 8 percent of the state income. They ascend to 1.9 billion dollars. 40 percent correspond to developed economies and an additional third to the OECD countries. The elimination of subsidies could reduce carbon dioxide (CO2) emissions by 13 percent.[13]

CONFRONTATION IN THE SUPPLY MENU

Efficiency is the cheapest source of energy savings and it reduces the necessity of other sources. The major tension between the security and sustainability paradigms lies in the options that are offered by other sources. Those who emphasize the importance of a secure supply, independent of tensions and disruptions of unreliable producers and exporters, prioritize options that satisfy their internal needs, relegating more environmentally responsible alternatives. Those who are concerned about the incessant increase of greenhouse gas emissions point out the urgency of *"decarbonizing"* the energy supply. CO2 emissions (principally greenhouse gases) exceeded 400 parts per million this year, contrasted with 356 ppm when the Rio Summit convened in 1992. This despite the fact that the Panel of Experts of the United Nations continues to point out that they should stabilize at 450 ppm towards the middle of the century so that the average temperature of the planet does not rise more than 2ºC above the levels registered before the industrial revolution.[14] The International Energy Agency (IEA) calculated in a report in 2012 that if the energy supply has to adapt to the requirements of the 2ºC average global warming limit, only a third of the current fossil reserves (carbon, petroleum and gas) can be consumed, unless the adoption of capture and sequestration technologies for carbon gases is generalized.[15]

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[13]FMI ENERGY SUBSIDY REFORM: LESSONS AND IMPLICATIONS. June 28-2013. http://www.cacme.org.ar/home.asp

[14]See The Economist, May 11th 2013 "Four hundred parts per million"

[15]International Energy Agency (IEA). World Energy Outlook 2012; International Energy Agency: Paris, France, 2012.

TRANSITION WITH INTRA-FOSSIL FUEL SUBSTITUTION

The possible point of convergence between the options of energy supply could be an intra-fossil fuel substitution of petroleum and carbon by natural gas. The revolution of shale gas, emerging from its development in the United States, offers this opportunity. Non-conventional resources (shale oil and shale gas, tar sands, heavy crude oil, etc.) have amplified the potential reserves of fossil fuel resources and they have moved the peaks of global petroleum and gas production forward, but not all non-conventional resources can be expected to reduce greenhouse gases. The shale oil and tar sands, more than having a deficient net energy balance between the generated and utilized energy (5-to-1 and 3-to-1 versus 18-to-1 of conventional petroleum), deepen the "carbon footprint" with their CO2 emissions. On the other hand, non-conventional natural gas, still with an unfavorable net energy balance compared to conventional gas (5-to-1 versus 10 to 1), contributes to the reduction of greenhouse gases (CO2). A MIT (Massachusetts Institute of Technology)[16] study points out the advantages of shale gas to reduce CO2 emissions by substituting carbon in electricity generation. But intra-fossil fuel substitution can serve as a means to transition to an energy supply that is at once more diversified and less dependent on fossil energy. Unfortunately, this is not yet part of a global negotiated agenda either. That agenda should articulate concrete short, middle, and long-term means to achieve the internationalization of the natural gas market. Otherwise, the revolution of shale gas, in the orbit of the security paradigm, will be limited to only select countries.

ALTERNATIVE ENERGIES AND NEW TECHNOLOGIES

The third point of convergence between paradigms could be the technology revolution of the electric industry. There are 1.2 billion inhabitants of the earth who do not have access to commercial electricity networks. The effort to include those excluded from these networks should give priority to non-polluting alternative energies when such alternatives offer advantages compared to traditional sources of energy. For those with access, we should introduce information technology to the transport and distribution networks. Smart networks reduce consumption, enable additional supply, and promote new devices that liberate us from logistic dependence on fossil fuels (electric cars, solar panels, fuel cells, etc.). There are neither plans nor agreed means for the diffusion of these technologies.

If the debate between energy security and sustainability continues without guidance toward opportunities for convergence and consensus, extreme views will prevail. On one side will stand those who neglect the anthropogenic influence on climate change and underestimate its consequences, and on the other will stand those in favor of a paralyzing environmentalism. Without negotiating a path forward that recognizes both the urgencies of the present and the limitations of the future, the dominant short-term views will impose its roadmap at the expense of both the future of energy and the future of the environment.

[16]MIT Study on the Future of Natural Gas. 2012

A POSSIBLE AGENDA IN THE AMERICAS

Amy Mayers Jaffe[17] writes in Foreign Policy that the Americas will be "the new capital of world energy in the upcoming decades" (the author compares 6.4 billion of technically recoverable petroleum and gas resources in the region to 1.2 billion of proved resources in the Middle East and North Africa). The paradigm of energy security and hemispheric independence dominates her argument, which is a negotiable and achievable goal. But it is also possible for the hemisphere to be at the forefront in leading efforts to foster the convergence of the energy security and sustainability paradigms.[18]
The main opportunities to advance such an effort are:

- The revolution of shale gas is a reality in the United States, it extends to Canada, and has begun to manifest itself in Argentina. The revolution of gas can be a revolution in the Americas.
- The internationalization of the natural gas market by regional exports of GNL is within reach and depends today on a strategic decision of the United States.
- The hemisphere includes five of ten countries with the largest shale gas reserves on earth according to the last report by the International Energy Agency of the DOE (Argentina, United States, Canada, Mexico and Brazil).[19]
- The hemisphere has numerous possible alternative non-polluting sources: hydroelectricity, bioethanol from sugar cane (Brazil), biodiesel from soya oil (Argentina, Brazil), and wind and solar power parks
- The integration of the networks of gas and electricity in the Americas is only beginning, but its expansion depends on advances in broader market integration. This can be seen in the complementarity of hydro basins and gas basins, above all in South and Central America.
- Today energy efficiency technology is available in both the region and the hemisphere. With distributed energy it is possible to reach the majority of those excluded from commercial networks in the region.
- The automotive industry in the region has avant-garde designs and products (flexible fuel cars in Brazil), hybrid and electric cars in the United States, and natural gas cars in Argentina and different countries
- Information technology is state of the art in several countries of the Americas, and can serve as the basis for the design and implementation of intelligent network technologies.

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[17]Amy MAYERS JAFFE . "The Americas, Not The Middle East, Will Be The Capital of Energy". Foreign Policy. September/October 2011. Seeonline: http://www.foreignpolicy.com/articles/2011/08/15/the_americas_not_the_middle_east_will_be_the_world_capital_of_energy

[18] MONTAMAT, Daniel. El futuro energético. Desafío regional y hemisférico. CARI. Consejo Argentino para las Relaciones Internacionales. Buenos Aires. 2012.See online:http://www.cari.org.ar/recursos/documentos.html

[19]Technically Recoverable Shale Oil andShale Gas Resources: An Assessmentof 137 Shale Formations in 41 Countries Outside the United States. EIA.Junio 2013.

INSTITUTIONAL RE-ENGINEERING

The global and hemispheric governance must be re-designed. We are in need of an institutional architecture capable of allowing us to translate these possibilities into concrete efforts to advance an agenda to reconcile energy security and energy sustainability.

Energy Security in Latin America

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WHAT ARE THE IMPLICATIONS OF THE REVOLUTION IN THE OIL AND GAS SECTORS FOR ENERGY MARKETS, BOTH GLOBALLY AND IN THE WESTERN HEMISPHERE?

In 2011, the boom of unconventional sources and the expansion of LNG trade led the International Energy Agency to question if we are entering a 'golden age of gas.'[i] Now, two years later, and still with many uncertainties in the horizon, the Agency announced that the impact created by the shale gas 'revolution' triggered in the US and the rise of renewables "is transforming our understanding of the distribution of the world's energy resources."[ii]

A change is observed and forecasted, with the center of demand shifting to emerging economies, mainly to China, India, and Middle Eastern countries.

The 'revolution' observed may impact energy markets while creating higher liquidity to gas trade, which helps lower gas price differentials (still with great regional differences). According to the MIT, without shale, gas prices could rise by about five times the current levels by 2050 with a consequent growth in electricity prices. In turn, the Institute forecasts that gas prices could only go as high as twice the current prices with shale.

A downside from an expansion in use of natural gas is that it may deter investments in expensive renewables projects. Additionally, the increase in gas supply is lowering the pressure to achieve environmental targets in United States, regardless of federal policy.

WHAT ARE THE CHALLENGES THAT THESE TRENDS POSE FOR GROWTH ANDCOMPETITIVENESS?

Crude oil prices are relatively uniform worldwide, unlike what is observed for natural gas, with substantive differences in regional prices, as no world gas market exists. Also, there is no monopolist player such as OPEC for natural gas trade, which is translated in projects with less rent available. In several places, the lack of a comprehensive infrastructure for the transportation of natural gas (pipelines or LNG) poses a challenge for the development of a globally integrated gas market—similar to the existing one for crude oil. Also in US, natural gas is still traded at one-third many European import prices and one-fifth the import prices in Japan.[iii]

Countries other than the US still struggle to develop a reliable local gas market and are experiencing a drop in prices in the mid-term. In the short term, projects for exploration and production of gas (specially non-associated gas, with a higher marginal cost) are not economical in low gas price scenarios.

The development of a reliable internal gas market in most countries still requires investments in transportation infrastructure (pipelines) and processing and storage capacity, technology (to mitigate environmental impacts/uncertainties, lower development and production costs), development of a local chain of services, and last but not least, a transparent and efficient pricing mechanism (be it market based or regulated).

For energy-intensive industries, the availability of low cost gas in the US renders north-American products more competitive, even allowing the return of industries that were once expelled as a result of high energy prices (among other factors).

HOW CAN ENERGY-RICH COUNTRIES BENEFIT FROM RECENT WINDFALLS WITHOUT SUCCUMBING TO THE RESOURCE CURSE AND OTHER PATHOLOGIES?

When it comes to administration of results created by the commercial exploration of natural resources, countries need to observe two main aspects: i) increased revenues; and ii) revenue management.
In the first place, as a general rule, countries need to seek and capture the rent created by exploration. Hence, there is a need to develop a fiscal system that maximizes the present value of projects to provide a reasonable return on the capital invested and to tax (or capture by other instruments) the rent generated. It is agreed that to achieve such results, countries need to put in place a neutral, stable, and flexible fiscal regime, which would not distort the investment decision (avoid upfront taxation) and that could be adjusted to changes in economic scenarios.

Coordinated with the revenue raise, countries should engage efforts in developing policies to: i) diversify the economy to mitigate dependence on oil revenues and hence contingent on fluctuations in oil prices; ii) encourage a certain level of processing and refining capacity to supply the local market (refineries have lower return rates than E&P projects); iii) as an option, impose obligations of certain tranches of production to be sold in the local market (to assure energy security, but as it has a 'tax effect,' governments should take its burden into consideration when designing other fiscal policies); iv) develop technology locally, not only related to oil and gas, but also products with higher aggregated value; v) efficiently transfer pricing reporting to avoid capital evasion; and vi) create policies to ensure that incremental investment will be made in the country (mitigating inefficiencies of the system and imposing withholding taxes on dividends).

Therefore, countries may make a great effort to establish a fiscal system that is efficient from a rent-seeking perspective, and also to develop policies that will mitigate potential negative effects caused by exclusive (or excessive) reliance on a depletable natural resource. In this sense, most recent literature about fiscal agrees that emerging economies may need to impose upfront regressive taxes/levies (signature bonuses and royalties) to fund necessary lateral investments (such as technology, infrastructure, and training).

WHAT KINDS OF ENERGY POLICIES ARE NEEDED TO PROTECT THE CLIMATE AND BIODIVERSITY?

Countries need to put in place policies to mitigate/outweigh effects of negative externalities created by energy projects and protect the climate and biodiversity. Such policies could involve: i) the mandatory planning and disclosure of environmental impacts of energy projects; ii) the imposition of carbon taxes; iii) subsidies for carbon storage projects (re-use carbon for injection in oil and gas fields and/or storage offshore rather than sending it back to the atmosphere); iv) designing an efficient, stable, and clear legal and fiscal systems to diminish costs of compliance and unlock funds to be invested in climate and biodiversity protection actions; v) encourage companies to use environmental friendly technology, such as uplifts for capital expenditure in such technologies and accelerated depreciation of capital investments.

HAS THE REGION'S POTENTIAL FOR GREEN ENERGY BEEN OVERLOOKED?

As mentioned above, a potential drawback of the large-scale use of low-cost natural gas is to discourage investments in renewables. The large-scale use of intermittent renewables with diminished social impact is still expensive and often uneconomical demanding incentives (tax exemptions, subsidies) to be affordable/bankable. One example is PROINFA, in Brazil, a Feed-in Tariff program implemented in 2004 to increase inclusion of wind, biomass and small hydropower plants in the energy matrix. The subsidies can come from high rent fossil fuels projects, while energy cannot (yet) be stored, and a reliable energy market still needs participation of non-intermittent sources (such as oil, natural gas, coal). Furthermore, recent developments show that an efficient dispatching mechanism can help allocate, on a short notice, energy generated by intermittent sources and reduce the use of fossil fuels in the energy matrix.

As the international experience with an increasing penetration of renewables unfolds, it is worth noting that market mechanisms are relevant allies in its ability to induce and achieve efficiency, better allowing the balance between short run (fair prices) and long run objectives (reasonable return on investments). The Brazilian experience with auctions that allocate long-term contracts for renewables is illustrative, especially when compared to former FIT programs. However, a deeper reliance on market mechanisms could grant better pricing through increased contestability.

Lastly, energy efficiency programs and actions may have been overlooked, and a careful design of such mechanisms is required to enhance demand response granting a higher penetration and participation of renewables.

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[i] http://www.worldenergyoutlook.org/goldenageofgas/

[ii] http://www.iea.org/publications/freepublications/publication/WEO2013_Executive_Summary_English.pdf

[iii] http://www.iea.org/publications/freepublications/publication/WEO2013_Executive_Summary_English.pdf