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Thank you all for coming to listen to a speech about the future of Latin America.

Let me also say I've had the pleasure of working with the coffee industry, particularly while I represented Costa Rica as ambassador to the United States. Ever since, I have enhanced my access abilities in Washington thanks to an influential ally: Costa Rican coffee, particularly Café Britt, irresistible to most gatekeepers. All of us, lovers of good coffee are indebted to my good friend Steve Aronson, a genuine pioneer and innovator who has made history in this vibrant industry.

I know that Sintercafe is a key event in the coffee industry, so it is a great honor for me to be here today.

Preparing a speech on a topic as broad as the future of Latin America is not easy. The British novelist Somerset Maugham once said that there are three rules for writing a great novel . . . but, he added, no one knows what the rules are. The same, it turns out, could be said of giving a great speech.

As to predictions, Greek mythology provides us the story of a powerful king who asked the Oracle of Delphi what would happen if he waged war against a mighty rival. "If you wage war, responded the Oracle, you will destroy an empire". Based on this prediction, the powerful king decided to go to war and sure enough he destroyed an empire: his own. The main lesson of this ancient story: there is always more than one side of looking at a forecast.

While I have not been asked to speak about coffee, I thought I could begin by talking briefly about how coffee has shaped and influenced the world we live in today.

A very interesting theory about coffee has been advanced by the distinguished German journalist, Josef Joffe. He wrote a few years ago that there was a clear connection between the quality of coffee consumed in a country, and the nature of that country's interactions with the rest of the world.

Here's what made his theory particularly interesting – he said that if a country was known to drink bad coffee, it would lead that country to be expansionist and imperialist. He listed examples such as the Soviet Union and Germany until the end of World War II.

But in places where the people drink quality coffee, he said you will find civility and pacifism, which we see here in Costa Rica and he sees in contemporary Germany and Italy – both of which like their *doppio macchiatos*.

I don't know that I completely agree with Mr. Joffe's theory, in part because you can find counter-examples, such as Napoleon, who was keen on both fine coffee and far-reaching conquest. It is also known that North Korea's strongman Kim Jong Il enjoys prime coffee with his daily several bottles of Courvoisier. But in any case, it is a provocative theory if nothing else, and one that I'm sure can help to stir debate.

One other related topic to ponder is how history will be influenced by those countries where Starbucks is the most popular coffee. Starbucks has of course brought new words to the world of coffee, such as *venti*. But it still remains true, I'm told, that "latte" is French for "you paid too much for your coffee."

Changes

Let me now turn to the more serious subject at hand, which is Latin America yesterday, today, and tomorrow.

Many of us remember the Latin America of yesterday as an era marked by the "import substitution" theory of Raul Prebisch which held that trade was harming developing countries and that Latin nations should seal their borders, subsidize domestic industries, and favor local goods over imports.

But of course, the substitution of local goods went on longer and longer, and the subsidies kept growing larger. Senor Prebisch later acknowledged the flaws in his model, and by the early 1980s, foreign debt had skyrocketed and there was runaway inflation, provoking economic crises and political instability. We were all left to clean up the mess, in the form of stagnant economies and inefficient and uncompetitive industries.

But good ideas eventually swept out the bad, and throughout Latin America there was an embrace of free enterprise and free markets, complemented by a political revolution that culminated in the spread of democracy.

Think of how much has changed. Not so long ago, there were few examples in Latin America of a country that had democracy, respect for human rights, responsible monetary and fiscal policies as well as trade liberalization. Indeed, 25 years ago there were only three democratically elected governments and annual inflation was measured in double and triple digits.

Today, all but one nation in Latin America have freely-elected leaders and the average inflation in the region can be measured with a single digit. Fiscal deficits by now have dropped almost fifty percent in relation to GDP from where they stood two decades ago. Likewise, on average, tariffs on trade have come down from forty to ten percent, while the reduction of non-tariff barriers is even deeper.

But the free elections, coupled with the implementation of sometimes-difficult economic programs and more open trade has led to a feeling that while we have done our homework, we have not seen the expected benefits from the homework.

Indeed, there is now in Latin America more poverty, both in absolute and relative terms, than in 1980 or 1990. Consistent growth from 2003 to 2005 did help 13 million Latin Americans to exit the ranks of the poorest, which meant the percentage of people in poverty declined from 44.3 percent to 40.6 percent. But this important reduction, while good news, still leaves the poverty rate higher than in 1980, when it was 35 percent. In addition, the Inter American Development Bank tells us that poverty is now more concentrated in some groups, especially the rural population and indigenous people. In fact, a quarter of the poorest is indigenous and that proportion rises to 60 per cent in the Andean and Meso-American countries. It should not come as a surprise then that political turmoil has affected several nations with large indigenous populations.

While there are a variety of reasons for this, we must remember that economic statistics are like a bikini -- what they reveal is important, but what they conceal is vital. And what these numbers don't fully capture is the work that remains to be done in Latin America, on a variety of fronts, which I will turn to shortly.

But the short-term effect is a slide into populism, reflecting disenchantment with past reforms that do not seem to have delivered expected benefits. But it's also true that Latin Americans are optimistic about the future. More than half of those surveyed last year, in a Latinobarometro poll, said they expected their children to be better off than they are.

The big picture

So what are we to expect from the next 20-25 years? Before I dive into that deep pool, let me first wade in with a story that neatly illustrates globalization at work, and then try to provide some big-picture perspective on the global economy and what it may look like in years ahead.

A few weeks ago, I received a request from Al-Jazeera, the most popular television station in the Middle East, to make an appearance and talk about elections in Ecuador and the deadlock at the UN between Venezuela and Guatemala. Although news organizations frequently ask for opinions and sound-bites, this invitation was quite a surprise, because when I think of Al-Jazeera I think of places like Tora Borah, Kandahar and Fallujah, not Caracas or Guatemala City and definitely not Washington DC. But out of curiosity I accepted the invitation and then was taken to the modern Al Jazeera studio in K Street, a fashionable part of Washington known for its high concentration of lawyers and lobbyists. I

learned then that the network was increasingly attracting prominent journalists and media figures from the US, and has offices in 30 major cities throughout the world, including London and Buenos Aires. This is a remarkable development which helps to understand how globalization runs across cultures, even if we don't agree with the ideas being transmitted.

Turning to the big picture, Larry Summers, who is the former president of Harvard and the former U.S. Treasury secretary, gave a speech earlier this year in which he talked about how the world is undergoing changes as dramatic as those seen in the Renaissance and the Industrial Revolution. The combination of technological progress and the growth of developing economies, which thrusts billions of people into the global economy, is upending many economic nostrums.

For Latin America, the globalized economy means greater competition, but also greater opportunity. Let me explain. Economic growth in Asia leads to greater demand for commodities from Latin America – from Brazilian steel and Chilean copper to Argentine beef and hopefully Costa Rican coffee. More importantly, China is also investing in the region. Half of the country's total foreign direct investment is in Latin America, and Beijing has said that investment will be \$100 billion by 2011.

These conditions, coupled with higher global liquidity and investors' search for higher returns has enabled Latin America to realize three years of current account surpluses – a first in at least 50 years. But the economies need to diversify beyond commodities, reform or privatize inefficient state-owned industries, and invest in everything from infrastructure to education.

Let me turn now to the future, and start with some forecasts about what the world might look like in 20-25 years, and then talk about what I see as some of the essential ingredients in the recipe for Latin America's long-term economic growth.

Predictions

In looking at the wider picture of the world, we start with the United States. All indications are that the United States is destined to remain an economic and strategic superpower.

The U.S. is a productivity leader in industries across the spectrum, and one reason is that the country invests in its future. Today, the U.S. alone accounts for approximately two-fifths of all the world's spending on research and development. And on a per-capita basis, the U.S. produces more engineers than China or India. This gives rise to countless innovations that not only create jobs in the U.S., but also make the U.S. a magnet for many of the world's best and brightest students.

One interesting statistic to consider is the size of the U.S. economy relative to the size of the global economy. Thirty five years ago, the U.S. accounted for 30.5 percent of global GDP. Since then, there has been extraordinary economic growth throughout the world, but particularly in Asia. Yet, the U.S. share of the global economy remains almost exactly the same – 30.7 percent to be precise. In sum, the U.S. is an extremely competitive, and dynamic, economy and there's every reason to believe that it will continue to be the

superpower. Its strategic advantage is today overwhelming, and all points to a continued and growing leadership in the strategic horizon.

No such optimism can be expressed with regard to the European Union.

The decline of the European Union as a political and economic force will continue. Integrating 25 countries the EU structure has already proven extremely difficult, and the entire project is compromised by the fact that it is viewed as suspect on both the right and the left. That was one reason why the voters in France and the Netherlands voted against approving the EU constitution. Europe is saddled with sluggish economic growth, and there's no indication that voters want to elect politicians who will scale back the welfare state, so Europe's economic slide will continue. That will provoke domestic discontent, which is something to be afraid of, given Europe's track record of dealing with discontent in the first half of the 20th century. Also, looming in this decline is the growing Islamic population in Europe, which totals some 27 million today and is expected to reach 50 million in the next 10 years. There are already districts and townships in France and the UK being ruled by Sha'aria, Islamic law, not by national law, and in these localities women must keep covered from head to toe with the traditional Burkas. The sign of the times could not be clearer. Al Zawahiri, Ben Laden's deputy in Al Qaeda, has declared Europe as the upcoming battlefield for militant Islam.

Turning now to Russia, it is expected to continue in the authoritarian mode of Vladimir Putin, as the country continues to struggle with widespread economic inequality and gross corruption and inefficiency in the government. What makes turmoil in Russia of particular interest to the rest of the world is that, in addition to its nuclear weaponry, the country controls one-third of the world's known natural gas reserves, and Gazprom supplies about 20 percent of Western Europe's gas needs. Earlier this year we saw the troublesome side of Russia emerge, when it temporarily shut off gas supplies to neighboring Ukraine. If Russia decided to do the same to Western Europe, it would provoke a severe political and economic crisis. Such leverage for political blackmail in the hands of Moscow is frightening.

In Latin America, for as long as poverty is widespread, we will see the waves of populism continue. Concurrent events in Peru, Mexico and Ecuador point to a model closer to Lula than Chavez. By that I mean there will be more responsible governance, focused on actually meeting the needs of those on the economic margins while keeping the macro economy on the safe side. Even Daniel Ortega felt the need last week to reassure investors on his intentions to strengthen the market oriented economic progress of the last 16 years.

There is a wide optimism about India's economic future. The largest democracy in the world, the country is blessed with a strong education system, a capable civil service, and a grounding in what is emerging as one of passports to prosperity – the English language. That has helped it to develop world-class industries in software and information technology. India generates \$21 billion from its IT industry, up from just \$150 million 15 years ago. And it's home to three of the ten largest IT firms in the world.

The continued development of India will also allow it to keep its strongest asset – its most talented citizens, so many of whom have traditionally left the country for the United States or other nations in search of bigger opportunities. India still has work to do if it is to realize more of its economic potential – on its infrastructure, its education and labor-market regulations in particular. But having recently reduced personal tax rates from 50 percent to 33 percent and liberalized rules on foreign investment, India looks set to develop into one of the world's most dynamic economies.

One can't talk about the future without talking about China, of course. And while it's generally believed the country will continue to grow – its GDP has increased tenfold since economic reforms began in 1979 – there is slightly less optimism about its economic future than about India's. China still needs to overhaul its rural agriculture economy, strengthen its pension system and social safety net, reduce environmental degradation, reform its banking system (which is saddled with non-performing loans), and develop its capital markets. On top is the issue of its aging population. As the saying goes, China will grow older before it grows richer, and of course, there is the big wall of authoritarian rule bound to slow down future economic progress. China, undoubtedly, has great potential, and all nations around the world are better off if China realizes its potential. But, as I said, it has a number of obstacles to overcome if its high growth rate of the past quarter century is going to continue.

One of the major issues that will be facing a number of countries over the next 20-25 years is the aging of their populations, particularly in Europe and the United States. Governments will need to devise new pension systems that are not modeled on Social Security in the United States, which is headed toward bankruptcy. I think there will be a greater push for private pension accounts, akin to what we've seen in Chile, as this will help people to escape from poverty and build up a social safety net.

It is to be expected that the biggest growth industry over the next 20-25 years will be information technology. Consider a few data points on what's occurred in IT in recent years. From 1995-2003, more than one-quarter of the GDP growth in the G-7 nations came from investments in IT. And by the end of this year, China will have created one million new jobs in IT just since 2003. Mobile phones are also driving growth. A professor at London Business School has found that in the average developing nation, every 10 percent increase in the number of mobile phones in use boosted that country's GDP by six-tenths of one percent.

IT is what helps to unlock innovations that bring new efficiencies and new opportunities to people around the world – in everything from health care to banking to video games. Not every country gets this, but many do. One that does may surprise you – Ethiopia. Its government is dedicating hundreds of millions of dollars on broadband networks, because it wants Ethiopians to have telephone and Internet access. The country's prime minister has explained the investment this way: "We are too poor not to invest in information and communications technologies."

In Latin America, Chile received the highest score from the World Economic Forum for IT readiness, and 27th best of the 115 countries surveyed. Chile scored particularly well on the intensity of local competition for IT, the government's use of IT, and the overall availability of online services. A World Economic Forum report said that cooperation between government and the private sector on stimulating IT development and use "has resulted in the coherent integration of information technologies as a fundamental component of the strategy for economic growth and social development." The report went on to say that "it is the fundamental role played by information and communications technologies that has enabled Chile to become the success story it is today." Costa Rica ranked 69th in this survey.

Countries in Latin America, and beyond, would be wise to look at what South Korea has done to build up a strong IT sector. It has the highest broadband adoption rate in the world, at more than 70 percent. A report published earlier this year by the World Economic Forum discusses how the government has linked up with businesses and universities to strengthen seven interrelated sectors: e-government, Internet, broadband convergence, mobile communications, e-commerce, banking and financial services, and the IT industry. The strategy has paid huge dividends, with information and communications technologies accounting for 30 percent of the country's exports. South Korea is now pursuing a new strategy – called IT 8-3-9 – in which it is working to create eight new information services (such as terrestrial digital TV), three new types of IT infrastructure (such as a broadband convergence network), and nine new IT growth engines (such as home networking).

Having made these predictions, let me spend a few minutes talking about what should developing nations – particularly those in Latin America – do to promote their competitiveness and their long-term economic growth. To keep up in the high stakes game of the future, nations will be wise to advance in the fields I will discuss now.

Trade

Fundamental, of course, is free and open trade, and integration with other Latin economies, with the U.S. economy, and with the global economy. I know that in some parts of Latin America there is a feeling that free trade has not delivered the promised benefits. Yet I also know that the problem is not that Latin America has been *over*-exposed to free trade, but rather *under*-exposed.

The United Nations Secretary-General, Kofi Annan, has spoken to the need for developing nations to become more active participants in the global economy, saying, "The poor are poor not because of too much globalization, but because of too little."

As important as China will be to the future of Latin America, we must also acknowledge that deepening economic ties to the U.S. will be critical in the years to come. A recent article in the Washington Post made this point well. It described a flower export business in Ecuador that was closing down – and eliminating 850 jobs – and one of the primary factors was that Ecuador does not have a preferential trade agreement with the U.S. For many Latin American nations, the U.S. remains the largest trading partner, and building on existing trading relationship will bring more and better long-term opportunities.

I should also add that the benefits from trade go beyond the economic. Open trade can spark political reform and create incentives for the public sector to exercise greater fiscal discipline. Trade agreements also signal more certainty and indicate to potential investors that nations have agreed to abide by common rules governing trade.

But as a World Bank report pointed out earlier this year, implementing other domestic reforms are critical if the full benefits from an open trading regime are to be realized. Those reforms, this to do list, are what I will talk about next, and while all of them are important they are all destined to encounter opposition from those with a vested interest in preserving the status quo. And the reforms are ultimately dependent on politicians, who are, as Nikita Khrushchev pointed out, “the same all over. They promise to build bridges even where there are no rivers.”

Education

Latin America’s future competitiveness will depend, in large part, on greater private and public investment in education and training. Education is also important for a country's ability to capitalize on the information economy and quickly adapt to the economic change that is a defining feature of the modern global economy. When educational achievement rises, citizens are better prepared to capture benefits of global capitalism.

That’s why I’m so encouraged by Costa Rican President Oscar Aria’s initiative to increase significantly public investment in our country’s education.

Likewise, last Wednesday I was part of a dozen specialists of American think tanks and universities invited to meet with Mexico’s President Elect Felipe Calderon in Washington for a discussion on current hemispheric issues.

President Calderon, who will be inaugurated on December 1st, seeks to strengthen and expand the current program Oportunidades, which like the Brazilian Bolsa Familia, makes cash payments (known as cash conditional transfers) to poor families to allow their children to attend school and be monitored for health protection. Argentina is also launching its Plan Familias as well as El Salvador, with funding from the Inter American Development Bank.

All these programs have as a common objective to break the vicious circle of poor families sending their youngsters to work, instead of attending school, thus condemning them to low paying jobs and therefore not being able to help the family overcome poverty. The programs have also a very wise feature: payments are subject to school attendance, medical supervision and are made to the mothers, not fathers.

The Rule of Law

The third ingredient in the economic growth stew can be summed up like this: while states need markets to function, it’s even more true that markets cannot function without effective, legitimate, and law-abiding states.

The rule of law is critical, and that includes everything from public safety to a sound legal system. When companies from outside Latin America are considering where to invest, they

look for courts that can adjudicate contractual disputes as well as assurances that both domestic and foreign investors will receive fair, equitable, and timely treatment before the law.

On the other side of the equation, listen to what the President of Dell, the computer company, said earlier this year, when speaking of Brazil's "gray market," which accounts for 70 percent of the country's market for computers. "Until the government can crack down on the gray market," he said, "companies like ours will face strong disincentives to invest more resources in the country."

A related point is reducing corruption in the public sector. The World Bank estimates that weak or corrupt judiciaries drag down Latin America's economic growth by an average of 15 percent per year by discouraging foreign investment, pushing productive enterprises into the black market, and failing to enforce contracts.

Another aspect of the rule of law that will become increasingly important in the knowledge-based economy is the protection of intellectual property rights. Maintaining a rigorous system of patents will be a catalyst for innovation, and innovation can be a key driver of long-term economic growth.

Infrastructure

As important as intellectual capital will be in the next 25 years, it's also true that physical capital will also be a key factor driving competitiveness. Commerce requires reliable and modern roads, rail lines, sea ports, and airports.

The same requirement holds for the infrastructure of the future: telecommunications. A well-functioning communications system is a prerequisite for investment; in today's global markets, if companies lack reliable communications, they cannot operate.

Elections

As important as free elections are, freedom to vote for candidates represents only the first step in what makes a country truly democratic. A functioning democracy also demands genuine checks and balances between branches of government, effective subordination of the armed forces to civilian authority and, above all, institutions outside the formal realm of political power -- particularly a free press -- to act as the voice and vigilant eyes of society. A lack of adequate mechanisms to scrutinize the conduct of public officials endangers democracy by allowing corruption to go uncensored.

An Open, Flexible Economy

Finally, Latin America's future will hinge on the ability to maintain an open economic environment. That means open, flexible labor markets with low taxes and reasonable regulation.

Creating a climate where businesses can start, and prosper, is critical. The World Bank publishes an important report each year in which it ranks 175 countries on the ease of doing business. Unfortunately, most Latin American countries rank relatively low. Chile scores the best, at 28th, and Mexico is 43rd, but Brazil is 121st and Venezuela 164th. Costa Rica ranks 105th.

Entrepreneurship can be the key that unlocks the great potential every Latin American nation has to grow and prosper. Having government impose punitive restrictions on everything from registering property to obtaining licenses will only protect a privileged few at the expense of the broader population.

A key element of competitiveness – perhaps the most important element of all – is open competition. It forces companies to improve, and it is what enables people to get access to the highest-quality products at the best prices. Shielding companies from competition can lead to lower-quality goods and also feeds corruption, as industries often find it less expensive to pay off government officials than it is to try to compete with foreign entities seeking market access.

Government intervention also tends to distort markets. To cite one historical example that may be of interest to this audience, have you ever wondered why Britain has traditionally been thought of as a tea-drinking nation? The explanation provided by a distinguished British historian, Niall Ferguson, is that in the 18th century, Britain imposed high import duties on coffee, but not tea.

Conclusion

That fact should be a reminder to all of us as we press forward with our activities in Latin America, that the path to the greatest prosperity for all will not be found through manipulating one political system or another, but rather working to create a level playing field where all people have an equal opportunity – whether that opportunity is learning as a child or competing as an adult.

As representatives of the coffee industry, you have an understanding of how markets work, and what is needed to succeed. I encourage you to share your experience and wisdom with others in the region, because coffee continues to occupy a very important place in the future of Latin America. Indeed, coffee is, as one person wrote more than 70 years ago, “a democratic beverage. Not only is it the drink of fashionable society, but it is also the favorite beverage of the men and women who do the world's work, whether they toil with brain or brawn.”

Dear friends: that is still true today, which is why there is reason for optimism about the future of coffee, and the future of Latin America.

Thank you.