

**CENTER FOR STRATEGIC
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**PRESS BRIEFING:
PRESIDENT OBAMA'S TRIP TO MEXICO
AND THE SUMMIT OF THE AMERICAS**

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ANDREW SCHWARTZ: Good morning, and welcome to the Center for Strategic and International Studies. I'm very pleased to be here with several of my favorite colleagues, who are going to give you the lowdown on the president's trip to Latin America and some of the Americas and Mexico City, and we have a lot of important matters to discuss right now, but I have to clear up one thing before we even go. My nametag says "Mr." but we have a Dr. DeShazo, a Dr. Mendelson Forman, and a Secretary Aldonas here – (chuckles) – so I should just say that before we get going. And with that, I'm going to throw it to Peter.

PETER DESHAZO: Good morning, everybody. The Obama administration is off to a good start with its relations with the Americas: the president's visit to Canada; President Lula's visit to the U.S.; the vice president's meetings with the regional leaders in Chile and Costa Rica; Secretary of State Clinton, Secretary Napolitano, Attorney General Holder to Mexico; and now the president's trip to Mexico City and to the Summit of the Americas. It's really an extraordinary concentration on an area that hasn't gotten quite so much attention recently.

The Mexico visit comes at a difficult time for Mexico – a confluence of highly negative factors. The U.S. economy and the Mexican economy are tightly linked, and the turndown in the United States has had perhaps a greater effect in Mexico than most other countries in the region. Mexico is looking at negative GDP in 2009. Its export sector is strongly affected by the downturn. The maquila industries of the Northern Mexico and the Mexican automobile sector and auto parts are very, very closely linked to the U.S. Remittances from Mexicans in the United States back home are down. Oil production is falling. Mexico derives about 40 percent of its state revenues from taxes on Pemex, the state oil company, and of course the drug violence that's been spiking as a result of the activities of the drug cartels has captured a lot of attention recently.

So Mexico is in a difficult period right now, and part of the task of President Obama's presence will be to reassure Mexicans of U.S. support and cooperation on economic trade and security issues. The Summit of the Americas in Trinidad and Tobago, Port-of-Spain, this is the fifth summit bringing together the OAS member nations. The agenda, probably the key issue, will be the economic crisis and the response to it. Five countries in the region participated in the recent G-20 meeting. There are the sort of – they are the countries that have been most closely involved in this but everyone will be looking at the – and listening to what President Obama says on the plans to reactive the U.S. economy. Security, public safety in the region will be an important issue. There has been a crime wave in many parts of the region and there is a lot of concern about international crime, drug trafficking, and many other kinds of organized crime.

Human development, the environment, energy security – those are all on the agenda. One of the important goals of the agenda is to revitalize the summit process after an unsuccessful summit in Mar de la Plata in 2005 to give a new emphasis to regional cooperation.

And finally, the issue of Cuba, which is not officially on the agenda but it will certainly be raised. And there will be considerable interest in U.S. positions on Cuba and expression of support from various countries to differing degrees about reintegrating Cuba into the inter-American process. Cuba was suspended from active membership in the OAS in 1962 and is not a member of – it's not a participant in the summit process. I'll stop there.

GRANT ALDONAS: Hi, it's Grant Aldonas. I'm just going to touch on a couple of the economic points and then some of the trade side briefly before turning it to questions.

The first thing is the president came away from the G-20 I think with really strong marks, personally. In particular, the G-20 itself outperformed everybody's expectations. I think most of the people in the currency markets were shorting the G-20 before it happened, but in fact the things that they did produce with respect to the IMF, increasing its ability to help out smaller countries, certainly the dedication they showed toward developing countries, all I think reflected well on the president's preparation and the good will I think that he's carrying into this. That good will is going to carry over into the summit here. He certainly got on well with the Latin American leaders that were present at the G-20 in London, good bilaterals with the individuals. And he's helped a lot, I think, in this instance by the fact that he is going to be going to Mexico and by Secretary Clinton's trip to Mexico.

In particular – at least in my experience – the mere fact that Secretary Clinton acknowledged the United States' role and responsibility in many respects in terms of the drug violence in Mexico and the economic repercussions of it is helpful in establishing a certain amount of credibility because what it does is recognize the reality of the situation. The question is whether that will carry over into the discussions about trade and recognize the same role in terms of Colombia and actually lead to a discussion about how we move on the FTAs that are currently before Congress that Colombia and others are still seeking implementation while we're hanging with fire.

There doesn't appear to be any move on the part of the Clinton administration – or, I'm sorry, on the part of the Obama administration to push the implementing legislation through the Congress at this point. Trade is going to be a low-level priority, given the positions that the candidates – Obama the candidate staked out, but he will feel obliged to – certainly in Mexico – to follow through on the rhetoric of the campaign from Ohio in terms of asking for a renegotiation of certain parts of the agreement. That, on the whole, is not actually a good sign. That's the downside.

In terms of where we are, world trade is plummeting. Trade in the region is plummeting. And despite the sort of black name that the Washington Consensus gets, particularly from the political left, the reality is the policies adopted by the countries in Latin America led to a really sustained period of economic growth, about 3 percent over the last decade – actually the strongest growth in the last 30 years, and in many respects has insulated them from some parts of the downturn. Forward-looking countries like Peru have adopted trade strategies that really have embraced the globe and has given them a lot more economic stability in the face of the current downturn in the United States' economy.

So in one sense, trying to unclog the arteries of trade would actually be a critical step, but it's nowhere on the agenda, and I always feel like, going into one of these things, the smart thing to do is just Google the title of the summit and see which articles pop up about when they started to negotiate the declaration, and one of the first articles I saw recognized that they were coming to a conclusion about the declaration last September. (Chuckles.) And just to point out, the world we're living in economically now, relative to last September, is radically different, and I think in some respects that's a measure of the lack of focus on the economic issues that matter, and that in fact would push back against rising protectionism, not only in the United States but elsewhere in the region at this point. So let me stop there.

JOHANNA MENDELSON FORMAN: Thank you, and good morning. I wanted to add some points about the Caribbean and also the upcoming donors meeting in Haiti because Haiti will also be a side subject at the summit.

For the Caribbean, if Mexico and Canada are our land borders, the Caribbean was declared in 2003 a third border of the United States, and that concept was really never carried through because of other problems that the U.S. was having in other areas of the world, but in fact the Caribbean states all looked to this summit – this is the first summit held in the Caribbean on an island there – to revive attention on the region because of several points: one, because the Caribbean is still an important energy platform and a potential platform, particularly for renewable energy, and in the case of Cuba for petroleum.

Second, it's an environmentally vulnerable region. Sixty percent of all population of the Caribbean live on the coast, and any of us who read from the IPPPC report of the U.N. to other reports on environment, that in the next 30 to 50 years most of the Caribbean will increase a three-foot sea level rise, which has tremendous implications for human security in the region.

And so we have this environmental vulnerability and energy platform, and then we have a third factor, which is that these islands, many of them are insufficiently diversified small economies that are affected not only by national disaster but now the global economic downturn, and that has tremendous impacts and so many of the economies are dependent on remittances from citizens living in the U.S., also in Canada but mainly in the U.S., and this will have a severe effect on economic growth.

Perhaps the only bright side for the Caribbean at this moment is that the reduction of petroleum prices over the last six months has relieved some of the burden, but 2008 overall was a very difficult year for the region because the social safety net monies which would have been spent on human issues had to go to pay for large energy bills. We can talk a little bit about the subsidies that were given by Venezuela. Most of the Caribbean states, with the exception of Trinidad and Tobago, are members of Petrocaribe, but once again, that's another issue. I'm sure that will be an important sidebar in the discussion of energy at the summit because of the lack of sustainability of that program, given the projections not only for oil output, of which Venezuela, while having one of the largest reserves, is not able to fulfill the demand that it has created in the region.

I'd also like to point out that renewable energy, which was a focus in the Bush administration under the U.S.-Brazil biofuel partnership, which focused on several Caribbean states, is also being incorporated into President Obama's pledge of an energy partnership in the Americas, which is to advance the growth in clean energy, and the summit at Trinidad and Tobago next week will certainly bring up this pledge and begin the discussions of a framework for implementation.

The overarching goal in the summit declaration – which, as Grant said was prepared early on – was certainly to create a renewable and low-carbon energy area. In fact, the goal is 50 percent by 2050 reduction of greenhouse gases. It's a very ambitious goal, given the economy right now. And, you know, with that kind of a problem we're also going to see many other relationships there. Poverty reduction, though, which is a major goal within the summit declaration, may be ameliorated in some ways if a renewable energy system gets started. Renewable energy is one of the best sources of job creations in the Caribbean. I have some data – I don't have to talk about it now – about the number of jobs that would be created and the beneficiaries would certainly be labor force, both in the Caribbean and also the opportunity to bring in other types of industrial bases that relate to the production of renewable sources of energy.

Just one final note: In Haiti – because there's also a sheet on the donor meeting coming up – the relationship and the renewed focus on Haiti that the Obama administration has placed on it, the high priority that the U.N. has placed on it, the visit of President Clinton earlier in March with the secretary general, the famous report that economist Paul Collier did on the potential of Haiti to become an industrial platform to the U.S. through the HOPE legislation that was passed in October of 2008, are certainly one of the more promising things that we see in an otherwise rather difficult economic picture on an island that was hit by Ike, Hanna, Gustav and Fay – who are not friends on a TV show but are the four hurricanes that destroyed the island – and the resurrection of these cities is very, very difficult. So I'll stop there. Thank you.

MR. SCHWARTZ: I'd love to take some questions. Mr. Cament (ph)?

Q: Actually two questions, if I can. One, Peter, how much does the president benefit at this early stage in the region just by not being George Bush? And I wanted to follow up with Grant on trade. I mean, it seems like all the previous Summits of the Americas, American presidents went there talking about free trade, free trade, free trade. It doesn't seem to be on the agenda here. Is that because, as you seem to suggest, that agenda succeeded or just it's not a priority for this president? Is there any pressure on him on Colombia to get that in? I mean, what's happened to that?

MR. ALDONAS: Right. Sure.

MR. DESHAZO: President Obama's popularity with public opinion in the region is a major resource that he takes in to the summit. In some of the polls done before – during the election, up to 85 percent of the populations and/or publics in certain countries in the region supported him, and that will be a very important resource that he has. All eyes – eyes will be strongly focused on him, on his – both what he says in terms of U.S. policy in the region and also

the way he relates with other colleagues. He's the top U.S. diplomat. I think his trip to Europe showed was it sort of presaged what to look for in Trinidad and Tobago and in Mexico.

MR. ALDONAS: George, it was a really good question. On the free trade front, it's not going to be a major issue. In part it is because it succeeded. In reality, a lot of what we ought to be doing trade-wise in the region comes down to some very practical things of unclogging the arteries. It's things like infrastructure, it's things like transportation, it's things like a better telecommunications network in a region that is shifting towards services like the rest of the global economy is. Telecommunications is actually a transportation vehicle rather than a way of communicating with each other since you send your services down the wires. And so the sorts of things that would make sense to do right now don't necessarily have to involve the classic things we've done – negotiate about tariffs or quotas or things like that.

The other thing is that there's a growing recognition that to take full advantage of the agreements that have been reached on a regional basis, you have to start grappling with the things that lie beyond the border. You have to start grappling with the sorts of things that you face internally in terms of the institutional and physical infrastructure problems that you face. But, to be blunt, the economic and political situation has changed radically in the United States as well as in the hemisphere generally. We have had a stronger shift toward much more populist politics. Certainly the idea of trade liberalization – you couldn't even mention the word “free” in relation to markets of the G-20 for example – (chuckles) – you know, and that was a group of finance ministers and central bankers. So you can see it.

And what's interesting, I think, you see in the United States in particular that populism really affects both parties; it just comes out in two different debates. It comes out as a trade debate among Democrats and an immigration debate among Republicans, but it's the same insecurity being reflected there, and I think the economic crisis has heightened that. So there's less pressure, I think, on all sides to think about liberalization. The real question is, what can you do to make sure that we don't see a rollback as a part of the process?

And the irony about trade, of course, is that the best defense is a good offense. Staying on offense is really what helps drive the process. That's what's missing and that's what raises the concern that we're going to be rolling back. That's where Colombia comes in, as is Panama. If the president made the statement that you could get up, move these things, work with Uribe, make sure that we've got this through. It would be an enormous statement in support not only of American leadership in the region but a recognition that we were part and parcel of the reasons for Colombia's decline and that offering another economic opportunity is part of the responsibility we share in resolving the crisis that in part our drug habit has created in Colombia.

So he could do that. Unfortunately, you know, what he was doing as a candidate in terms of trailing around Ohio with Sherrod Brown and borrowing his brand name as a part of the process makes it very difficult for President Obama to do that, and so I don't expect it's going to come out of the region and I don't expect it's going to come out of the summit even though I think it's one of the absolutely essential things the president could do.

Q: Does Mexican trucking – (inaudible)?

MR. ALDONAS: Sure does, yeah. Now, this is an issue that's – you know, Mickey Cantor signed the agreement originally, the NAFTA agreement, and President Clinton immediately walked away from the trucking provisions with deference to the Teamsters. So it's an old sort of problem, but this is really – what the Congress did in terms of ending the program at Byron Dorgan's, sort of pressed – really has put him on the defensive. I think what people are seeing is that instead of being a paragon of virtue on trade, which I'm always skeptical that we are but in this instance you're sort of down one going into the conversation. So, far from actually trying to do something that would promote trade, as a part of this we are in fact on the defensive on trade.

MR. DESHAZO: I'd like to make just a quick comment about the framework of the summit process in trade. At the 1994 first Summit of the Americas in Miami it was determined that the nations of the region – it was laid out as a goal – would negotiate a free trade area of the Americas over a period of about 10 years. That failed to happen and the trade issue was almost laid to rest in Mar del Plata in 2005 where there was no consensus on any kind of statement on trade at the event. This time around, if there is any kind of language on trade – and I haven't seen the declaration of commitment – if there's anything, even if it's a placeholder, it would be a step forward, but the idea of the free trade area of the Americas is certainly not moving anywhere.

Q: Two questions, please, for any of the speakers. If you could elaborate a bit more about the president's economic agenda at the summit, given all of the issues you've raised. Is he going there with any specific asks, any specific requests for commitment? Or, put another way, how would he emerge and judge it as being successful?

MR. ALDONAS: Well, actually I think there's a wonderful way to do that with the president's agenda because the reality is the region as a whole, despite its liberalization and the success of that over the last decade after 20 years of tough times, we're still left with an income distribution problem, a skew that's heavy. It is always going to contribute to a more populous politics until you find a way to address it. The president's domestic agenda is one that is designed to address that here, and it is the same set of issues that actually need to be addressed within the region. George and I were talking a little bit earlier that we're living in a world where if you can reduce a job to an algorithm, it's going to be done by a computer. And that means you have to raise the investment in human capital significantly. And while we have problems at the K-12 level – we've got great universities – throughout Latin America you have some good universities but overall the investment in education is well below the norm and well below what you'd need to remain competitive in the global economy.

So in one sense, the president has a built in agenda that he could extend in the region and would have real resonance, not only with the political leaders in the region but also with the people in the region.

MS. MENDELSON FORMAN: Let me just add one point. I think what President Obama brings to the summit is the commitment out of the G-20 for this \$1 trillion that I think the two beneficiaries will be the Latin American region for borrowing and for Eastern Europe. So,

from that perspective, the carryover will be important. But there is also the reality, as Grant said, that, for example, President Moreno of the Inter-American Development Bank says if growth stayed stagnant, the number of people that would drop to the extreme poverty level per year would be about 15 million people a year. Now, that's pretty dramatic, and all of us who have lived through the lost decade that we saw about 20 years ago, 10 years ago, may actually begin to see that. And I think the message has to be delivered that we don't want to repeat the lost decades, that we want to learn the lessons. And, mainly, the greatest losers in the lost decade were the education sector where there was a tremendous drop in literacy, which is a correlative to development.

So I think that those are the important things is keeping the perception up and also talking about the facilities that were created in the G-20 for Latin America to use in this common crisis.

MR. DESHAZO: I think people will be looking for the signs that the U.S. economy is going to recover. The recovery of the U.S. economy is the key factor and everyone will be looking to President Obama for his description of how his plans are laid out and how they are going to be working, plus the other issues of avoiding protection and the further funds dedicated to the international financial organizations – the IMF, the IDP – for loans. And beyond that, what others have said about empowering people in the region – any kind of announcement on possible programs, cooperation on energy security, education, all of those things, would be very well received.

Q: The other topic I wanted to ask about was Cuba. If you could help frame that for us a little bit more. What is it that the nations are going to be debating, perhaps privately more than publicly, and just how do you expect that issue to play out and maybe even overshadow some other issues there?

MR. DESHAZO: There will be differences of opinion from the different countries. The countries close to Chavez, Chavez himself – Bolivia, Nicaragua, those – the ALBA countries – will be promoting a very vigorous change in policy to allow Cuba back into the summit process to allow Cuba into the OAS. For other countries in the region there may be support for reaching out to Cuba, but not necessarily to that extent. The United States has already said that it will not end the embargo, that this is not in the cards in the short term. Indeed, there is legislation that prohibits the normalization of relations with Cuba as long as Raul Castro is in power and as long as there is no transition to democracy. And in fact, the OAS, by certain documents and certain agreements that it's signed, would make Cuba's full participation extremely difficult. The Inter-American Democratic Charter that was signed in 2001 basically establishes democracy as the coin of the realm in the countries of the OAS, and that's a major impediment to Cuba's reintegration. But the issue is going to be, I think, strongly discussed.

MR. ALDONAS: If I could just add on. I think on the economic front, the early moves and the signals about altering the embargo, at least with respect to travel, does play in terms of a change in U.S. perspective about the region, and you would hope that it would be followed with a more thoughtful approach to how you reintegrate Cuba. How do you try and provide the incentives that would draw Cuba back in, in essence to the family of nations? And as Peter was

pointing out, that depends on political change in Cuba, which I've never been a big believer that anything we do economically is going to alter political choices in a particular country.

But, having said that, the fact is we've seen other instances like Nicaragua where we've had a change and we've drawn a country back into very close economic relationships with the United States, as well as with the rest of the region. There's lots of lessons actually that could be learned and we could spend some time thinking about those in the offing. That would be a good contribution. I don't see that on the horizon, but I think on the margins of the meeting that's going to be the discussion.

MS. MENDELSON FORMAN: Let me just add one point because you asked about framing. There are two things that I think will happen. This is an administration that is looking at multilateralism as an important part of its diplomatic tool. The fact that they're looking at the OAS and they're talking about a process is a change, and I think that's going to be important. And the second factor that may come out – because officially Cuba is not on the agenda, and I think in all the press briefings that I've read there hasn't been a lot of discussion of that when asked on an official basis. We will be looking for interlocutors on this dialogue, as we have in the past, and I think we may come out with a stronger set of positive actors within the region. The fact that this is taking place in the Caribbean is important. There are going to be people in countries that are going to be very important to this transition, which is happening already. So I would just add those two points.

(Audio break.)

Q: – G-20. It did provide those growth rates in some ways, but in other ways it was seen a way of widening the gap between rich and poor. It lifted some people from poverty because it relied on trade and export of resources and those kinds of things. And that mix of free trade, smaller government privatizations, low debt is now the exact opposite besides the trade of what the United States is doing. It's taking on huge amounts of debt. The state is taking much more control of things. Will Obama say to some of these governments that are moving to a much stronger state control of economies, yes, keep doing that, and those of you that aren't should continue to?

I mean, this is obviously Chavez's mantra, statism. Will we see a complete reversal, using the United States' example, for the state to get much more involved in the economy?

MR. ALDONAS: Well, two thoughts. First, as to our ability to serve as an advocate for free markets and smaller government right now, I was told when I was very young by my shop teacher that you can't reclaim your virginity simply by pulling your pants back up – (laughter) – and, you know, the fact of the matter is it's going to be pretty hard for us to –

MR. SCHWARTZ: That's off the record.

(Laughter.)

MR. ALDONAS: Yeah. But it's pretty hard for us to, you know, go right now and pretend that, you know, the things that we were visiting – or the World Bank or the IMF were visiting on Latin American countries in terms of fiscal discipline, monetary discipline, all those things that go with it, is going to play at this point. So that's number one. But more deeply, to be honest with you, for anybody who lived through those times, the idea that there ever was a Washington consensus is just – it's not really a serious proposition. There were a set of policies that the World Bank and a number of economists advocated, including at the IMF, that were broadly consistent with simply trying to free people to have the economic opportunity.

I started out in my life as a Foreign Service officer in Mexico. It didn't take long to figure out that the reason that everybody was operating in the black market was because they literally couldn't afford to comply with the rules and pay the bribes. And the interesting thing about the dynamic that NAFTA has created is that it has actually liberated individuals in Mexico to pursue their economic interests there. And to the extent that that was the point of the Washington consensus, it still is valid in terms of the region, and embracing that creation of that economic space, that freedom to actually engage in exchange, specialize, raise your own productivity, contribute to a rising standard of living, all that is still relevant.

To the extent that it reflected a certain perspective of conditionality at the IMF about things like fiscal discipline and monetary discipline, that I think is dead, in part because we can't be terrific advocates of it right now.

MR. DESHAZO: I'd like to add that the policies that were forwarded by the Washington consensus that were applied in the region, all of the monetary fiscal policies that have led to much stronger economies, have allowed them to weather or to confront this crisis in a much better situation than they would have been otherwise without massive currency problems, monetary problems, the fact that the debt is low, the fact that reserves are generally high. It allows them to increase their spending on social programs over at least the short haul to meet the crisis, and hopefully when the world economy begins to recover they'll be in a better situation.

So I'm not sure that there is sort of a revisiting of some of these basic fiscal monetary policies and the way of conducting the macroeconomic policy in the region, but definitely they're going to have to adjust to a tough political environment where unemployment is going up and where GDP is being scaled back in every country.

MR. ALDONAS: Maybe I could just add one more thing. Peter, you reminded me that there is one good, very concrete example. Today in Mexico there is a government bond market which allows the government to borrow in pesos rather than dollars, so it's not exposed to the exchange rate risk the way it was early on. And there is a corporate bond market. It's unique, actually, in Latin America, but it is there in part because of the fiscal discipline and monetary discipline the Mexican government showed after the tesobono crisis in 1994 to restore credibility, but also the institutional policy changes, of which their ability to play off the stability in the U.S. market because of the NAFTA agreement, was absolutely central to it.

So when you think about the constellation of policies of trade liberalization, fiscal discipline, monetary discipline, you can point to a concrete example where it really has paid off

for Mexico so it's not exposed to the risks it was in the 1970s, the 1980s when I lived there, the 1990s. And so in that sense, many of the things that people were talking about that get blamed on the Washington consensus are just as Peter said. They've become bulwarks against worse economic times, and in that sense I don't see them being revisited at this point. They've sort of proven the test of time.

Q: Okay, just a quick follow. On the IMF, I thought it was ironic that the day the Washington Consensus was declared dead the IMF got about a trillion dollars, considering it was the chief enforcer of it, as viewed by a lot of these countries. Will the stigma on the IMF be – is it gone now for these countries? Will there be more people borrowing? Will they invite the IMF to come and get involved again, or is it still going to be seen as this sort of interloper?

MS. MENDELSON FORMAN: Let me – and I'm sure both Peter and Grant have other views, but the trillion-dollar package that was released – I mean, Mexico immediately went and said they were going to borrow off this new facility. I think you have to separate the IMF and the Washington Consensus as an ideological issue which fueled the left in Latin America and in the United States on Latin American policy versus the reality of what the IMF does as a global financial police agency, and in a time of crisis is going to be used. I mean, the serious economists and the serious government officials in all Latin American countries are going to be looking to the IMF. I mean, I think what you have to look at is this is a region with great income inequality – perhaps the greatest in the world – and the sources of those are not from the Washington Consensus. The sources of those have to do with many other issues that Grant and Peter have mentioned: from bad infrastructure planning, poor telecommunications, lack of investment in education, lack of access to different types of programs.

Some of them are changing. There are cash transfer programs in some countries like Mexico which have been successful, but those are not the Washington Consensus problems, and I think there's a tendency to aggregate all of them under one title. And I really believe that the IMF is going to be a godsend, both for Latin America and for Eastern Europe.

Q: I would just say, I meant more the perception of it. I mean, I think as you've said, the officials and the economists certainly know what the IMF does and does not do, but it was such a political lightning rod and people made so much hay out of this during this time, I'm wondering if you can roll that back to some degree and now have politicians saying, guess what we just got? You know, \$50 billion from the IMF isn't that exciting when for years you've been telling people that the IMF is kind of the root of all evil.

MS. MENDELSON FORMAN: They don't call economics the dismal science for anything – (laughter) – I mean, I think that nobody gets excited about the IMF.

MR. DESHAZO: And there is less stigma if the Lulas and others of this world can claim that they have a greater say within the IMF, and that in the governance of the IMF the BRICs and other countries have a bigger role.

MR. ALDONAS: Yeah, I guess what I would say, Scott, is that you really do have a problem politically to make the turn, to suddenly embrace the IMF. The IMF, if it keeps its

narrow function on balance of payments and has a little bit more heterodox approach to the individual economies, is likely to succeed in the region but it's never going to be embraced. I mean, that's like embracing the dentist. (Laughter.)

Q: For anybody with Washington campaign – (audio break) – culpability in terms of the drug wars and the violence and – again, for those of us watching the campaign, this was sort of a surprise. It just wasn't on the table. Can you speak to that, number one? And, two, can you talk about America's responsibility here in terms of the consumption of illegal drugs fueling the problems we've seen in Mexico, and also the transportation or the movement of weapons from north to south because of straw purchases and things like that? I mean, what is America's culpability on some of these issues?

MR. DESHAZO: The blame game on drugs has been going on for a long time in Latin America. I'm a veteran of Colombia and all of the – for the denial of, you know, whose responsibility was what and casting the blame on. I think there is a greater sense of sharing the responsibility, and that was very clearly stated by Secretary Clinton, that indeed if the United States is – the U.S. demand is driving the drugs, then we have an important role. And this is something that on the security side and the arms side, Johanna and I have worked on this a lot, and I'll let her talk about that.

But I think the positions that the U.S. takes on trying to stem the flow of illegal – the illegal flow of guns will be a major factor in reassuring Mexico of our dedication to cooperation on this issue.

MS. MENDELSON FORMAN: I think – you know, to answer on the flow of weapons, it's going to have to take an interagency effort in the United States, not only the State Department but Homeland Security, Justice Department to begin to enforce laws that are on the books. The Mexicans have a very tight gun control law, and they are not the source of the problems but certainly they're the beneficiaries of our own weak problems at the border, the ability to buy guns at gun shows without background checks.

And we're not the only people who are selling – I mean, weapons that were found in some of the cartel caches came from Hungary, they came from China. So, you know, it's an arms bazaar in itself at the border, and I think the immediate challenge is to reassure with some important symbol, and Peter and I wrote about this treaty that has been lingering in the U.S. Senate since the late 1990s, the control of firearms, the SFTA agreement, which could possibly become a talking point, but more than a talking point; an actionable talking point that the president might refer to when he is visiting in Mexico next week, and I would certainly be looking out for that.

But symbols are symbols and actions are actions. I think the fact that the president has announced, I think with great courage, that he's going to take on immigration policy as a promise that he made to the Hispanic community during the campaign – since you asked about the campaign – is certainly a very courageous act at a time when he's also trying to solve a global economic crisis, a nuclear crisis with North Korea, and a very difficult situation at the U.S. border.

MR. ALDONAS: Let me just add two things. One is a very practical, concrete thing, which is, you know, I think there has been such an intense focus since 9/11 on what's coming in the country – rightfully so in many respects – that we've neglected what's going out of the country. There is something called the Arms Export Control Act. When you send one of these things abroad you are obliged to get an export license. Anybody who has dealt with that bureaucracy at the State Department knows it's undermanned, knows it has to depend on the customs service for the enforcement aspects. It's not like you have people at the State Department running around with guys. Frankly, for those of us who used to work in the State Department, you wouldn't want that, you know. (Laughter.)

But the reality is that we have not done a credible job because our focus has been elsewhere, and as a consequence now – you know, times change, events change, perceptions change about what the threat is, and I think what we're recognizing is that the porousness of the border works both ways, and that actually is a very helpful thing to understand because, going to Peter's point, it is a shared responsibility. The border is actually a third country. It's something where the flow there, as Johanna is pointing out, is something that you don't see elsewhere in Mexico and you don't see elsewhere in the United States. You've got to come to grips with that together. So the steps they've taken so far are helpful.

The negative thing I have to say is the utter hypocrisy of assuming responsibility for the drug flow and not actually doing much about the demand side of the equation, and, oh, by the way, then saying to Mexico we want to renegotiate the NAFTA with respect to labor and the environment, ignoring the fact that we need this agreement, in part both to stem the tide of illegal immigration as well as to address the economic consequences of our drug demand.

Q: Just a quick follow up. It just seems like it's been impossible for the United States to win this drug war in terms of stopping the drug flow from south to north. Should the United States be – what can the United States do on the demand side, and should legalization of some drugs be on the table as a possible option?

MS. MENDELSON FORMAN: Well, I think you are aware that I think three Latin American former presidents have already talked about the legalization of marijuana, so the issue is on the table in a regional discussion. Nothing has come from our side. And there is a lot of attention being paid to the incarceration rates that are first-time offenders, that Senator Webb has now created a commission on crime that will look at that as well. So I think there is a recognition that we need to address it.

I think what's interesting in this moment is that there's a separation now between the war on drugs, which was the mantra of our relationship, with the other issues that are socioeconomic based, that are related not so much to the drug war but to the economic inequalities – the joblessness that so many youth have, the youth bulge that exists in Central America, which creates an enabling environment for gangs. These are things I think – and none of us mentioned – and I think Peter and I had talked about the public safety, which is a key issue in the summit agenda. This is one of the issues that all of the region – Central America, Mexico – are looking at but also the rest of the Latin America.

So I think the ability of President Obama to deliver a clear message that we are concerned with safety and security, aside from the drug issue, which is important and related but not one and the same, may give the leaders of the region a new way to address some of the basic problems that are responsibilities of states themselves.

MR. DESHAZO: The key goal is to empower the capabilities of the state to be able to deal with the functions that a normal state would, and to be able to defend the state against the effects of widespread international crime or organized crime, drug trafficking. To the extent that Mexico is able, for example, to strengthen its police force and not have to be able to use tens of thousands of military people to combat the crime syndicates in Mexico is important. All through Central America, as Johanna mentioned, the need for strengthened state presence – if there has been a lesson from Colombia, it's been that. And when the – when society and state institutions and the state itself are able to project legitimate authority, then that lessens the amount of space open to the drug traffickers.

MR. ALDONAS: I guess I would just add two thoughts. One, a growing economy in the United States and elsewhere means there's other economic opportunities. That would be one enormously helpful step that everybody could collaborate on.

More concretely, even though I'm a libertarian by instinct because of my skepticism of political power, it doesn't go as far as the legalization of drugs. But how you cope with, quote, unquote "offenders" of these sorts of crimes, who do, incidentally, visit negative consequences on people in their own homes, in their own communities and in the region, it doesn't mean you have to do it through prisons. And I think that's part of what Senator Webb is talking about. I mean, obviously an investment in trying to encourage people off of the substance is a far better thing. You know, trying to make sure that our national parks aren't home to meth labs would be another good thing.

You know, there's a whole host of things, but it really does take a different mindset about the problem that we have in thinking of it not purely as an issue of criminal enforcement, and that in and of itself actually would be better. I'm always reminded of a friend of mine who actually grew up in the Nancy Reagan years going through school when it was just say no, and he said it actually had a profound effect. You know, the irony is that you had a generation where drug use declined. Those are the sorts of things that we ought to focus on, and obviously, you know, where we are in our prison system ought to tell us that as well.

MS. MENDELSON FORMAN: Just one last point on your question. The opportunity that's before us with creating a national health system and looking at our entire health policy is probably going to be the place where you're going to see greater emphasis on treatment. The first lady has talked about it; the president has mentioned it in the context of treatment. So I think we have a convergence of opportunities, both on immigration and on national health, to begin to deal with the treatment question as well.

Q: Hi. Alexander Duncan with Platts. You touched on this earlier, energy and the environment, and I was wondering where you anticipate this ranking amongst all of the many

priorities that are going to be discussed, not just at the Summit of the Americas but in Mexico as well. And also, which countries to you anticipate President Obama going to personally, offering to extend a hand in terms of development of their resources, whether it's oil, natural gas or renewables, which is clearly a huge priority for him domestically.

MS. MENDELSON FORMAN: Well, and I'm sure you're aware that the U.S. biofuels agreement which had four countries initially – which were the Dominican Republic, Haiti, St. Kitts and Nevis, and El Salvador has been expanded into Honduras and also into Nicaragua. And the sense will be that there will be even greater interest because the Department of Energy is following up. In fact, there will be a meeting in June in Lima to follow up on some of the implementable components of the energy accord.

The other area – and of course which is a sore point and it's going to be resolved at this summit – is the U.S.-Brazil tariff issue on ethanol, but given the priorities, my sense is that energy and climate are going to be rolled into a broader discussion that the president will take not only to the region but on a global basis.

There is great progress in the Americas on renewable energy, but the amount even that will be produced, it still will only be 7 percent of the transport needs over the next 20 years. The real challenge will be whether there is enough investment money for countries like Brazil to exploit the pre-salt oil that it found off the shore in Santos, whether there will be additional resources to develop oil in the Caribbean, that Cuba already has several international actors seeking the sites in the Caribbean.

So I don't know that you can rank it as a priority, but it will be folded into the climate agenda, and the low-carbon goal, which is stated in the summit declaration, is going to be the driving force.

MR. ALDONAS: If I could just add, this is one area where people can agree, generally, and so I think you'll see a lot of focus on the idea of how do we create a more sustainable energy picture as well as move toward energy security, but it won't move beyond the abstract level, for precisely the reason that Johanna described. Until you're willing to confront, you know, the Fajules in Florida and the American Sugar in the Red River Valley, which is currently being flooded, you're not going to come to grips with it. And of course the congressman who is the chairman of the House Ag Committees is from Detroit Lakes, Minnesota, which is right in the heart of, you know, the sugar beet part of our country. So if you think about all the other things on the president's agenda economically, the idea that this is the time to cross swords with the farm lobby, probably not going to happen, right?

The one thing I would say is that – and this is a much more serious problem, is that for all the things we'd like to do on energy and the environment, in one sense the decline in economic activity has actually had the biggest impact on reducing CO₂ emissions of anything we could have done. It's not a happy state of affairs to be solving your carbon problems by, you know, engaging in a global recession. But what it also does is drive the price down, which means in terms of renewables and the other sorts of the alternatives there is much less incentive, and therefore also higher costs politically and economically to pursue a renewable strategy. So the

idea that we'll reach the 7 percent in light of the very low price of classic carbon fuels at this point, I'm a little skeptical that will happen. It's not an issue that will come up but it's one that will hang in the background and it will inhibit the ability actually reach a broader agreement, unfortunately.

MR. SCHWARTZ: Well, thanks very much for coming today, and our experts will be available while you're on the trip. The transcript will be out this afternoon, late this afternoon, probably close of business, and thanks for coming to the Center for Strategic and International Studies – appreciate it.

(END)