ATLANTIC COUNCIL

ADRIENNE ARSHT
LATIN AMERICA CENTER

The Trilateral Bond:
MAPPING A NEW ERA FOR LATIN AMERICA, THE UNITED STATES, AND EUROPE

REPORT OF THE TRANSATLANTIC TASK FORCE ON LATIN AMERICA

Co-Chairs:

H.E. José María Aznar
The Hon. Christopher J. Dodd

Project Director:
Frances G. Burwell

Rapporteur and Expert Adviser:
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Atlantic Council

Transatlantic Task Force on Latin America

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The report reflects the consensus of the director and rapporteur of the Atlantic Council Transatlantic Task Force on Latin America. The co-chairs and members of the Task Force welcome this report as an important contribution to the debate and support its overall conclusions. However, not all of the report recommendations reflect the views of all the Task Force members. Individuals participated in the Task Force in their private capacity; affiliations are provided for identification purposes only.

*Atlantic Council Member
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+The ex officio members of the Task Force are not responsible for any conclusions or recommendations put forward in the report. The Atlantic Council appreciates their kind involvement and valuable insights that greatly enhanced the work of the Task Force.

Foreword

For too long, the United States and Europe have failed to embrace Latin America as a partner in a broader transatlantic community. Modern Latin America, like the United States, springs from a common European heritage and shares the historical, political, and philosophical roots that bind the West so closely together. The region is of growing strategic importance, with its expanding markets, energy resources, and global economic reach. But while Latin America is changing rapidly, the United States and Europe have been slow to sufficiently recognize and embrace this new world, missing crucial policy and business opportunities.

To remain competitive globally, the United States and Europe must reimagine and redefine the transatlantic partnership, reaching out to new partners who share values and interests. In response to this challenge, the Atlantic Council created a high-level Transatlantic Task Force on Latin America, co-chaired by former Spanish Prime Minister José María Aznar and Senator Christopher J. Dodd, and made possible by Honorary Chair and Atlantic Council Board Director Adrienne Arsht. The Task Force brought together more than thirty authoritative figures—foreign policy professionals, leaders from the business community, and independent experts—from all three regions. Together, the group developed a series of policy-oriented recommendations designed to reinvigorate the US-Europe-Latin America relationship and to create a new, trilateral partnership.

The Council is especially grateful to a number of individuals who contributed their insights and suggestions to the report. First, very special thanks are owed to the Task Force co-chairs, President José María Aznar and Senator Christopher J. Dodd for encouraging us to undertake this work and for providing crucial thought leadership throughout the process. We would also like to thank the members of the Task Force for sharing their invaluable expertise and always pushing for an innovative rethinking of the Latin American-US-European relationship. Their contributions served as a tremendous resource in articulating the most relevant issues which we will continue to pursue in the Council's work. We also would like to thank the ambassadors who participated so energetically in this work; although they are not responsible for the conclusions of the report, we look forward to continuing to work with them.

At the Council, Frances G. Burwell, vice president and director of the Program on Transatlantic Relations provided strong oversight and leadership to this initiative. Gabriel Sanchez Zinny, managing director at Blue Star Strategies, played a crucial role as expert adviser and rapporteur. Special thanks also to James McBride of Blue Star Strategies for his invaluable support, especially in the drafting of the report. Maureen McGrath excelled in ensuring that the Task Force ran smoothly and our Washington workshop was a success. Abby Moore provided excellent research assistance throughout this effort.

Above all, very special thanks are due to Adrienne Arsht, the honorary chair of the Task Force. This initiative would not have been possible without her vision, support, and enthusiasm. She inspired everyone to ask the big questions and to reach beyond the conventional wisdom and rhetoric. As the Task Force neared completion of its work, her determination to give her vision lasting reality led her to found the Adrienne Arsht Latin America Center at the Council. We are immensely grateful to her for making it possible for the Council to be at the forefront of building a new era of collaboration and partnership among Latin America, Europe, and the United States. This is a vital task, one that will strengthen the entire transatlantic community, and we present this report as an important first step.

Frederick Kempe
President & CEO
Atlantic Council

Co-Chair Foreword

We want to extend our thanks and appreciation to the members and staff of the Atlantic Council's Transatlantic Task Force on Latin America ("the Task Force") who have worked collaboratively over the last seven months to produce a report that should be food for thought for policymakers in the United States, Europe, and Latin America seeking a new vision for a transatlantic partnership. Without a doubt, these three geographic regions share common interests, concerns, and aspirations. Given increased instability in other regions around the globe, the Task Force concluded that the time has come to build upon these similarities in order to forge a vibrant trilateral partnership that embraces Latin America as an equal partner. It is only through such an enhanced trilateral relationship that the inherent potential of the greater transatlantic community can be realized and global instability elsewhere mitigated.

The report that follows provides a blueprint for policymakers to follow in tackling this promising, albeit complex, endeavor. Task Force members rightfully focused on the key pillars of a trilateral partnership that will be enduring and yet nimble enough to respond to changing global dynamics. These pillars include the development of a competitive trilateral transatlantic marketplace with minimal market distortions, human capital developed to its full potential, collaboration in the development and use of natural resources, enhanced cooperation and intelligence-sharing related to transnational crime and citizen security, and the development of the institutional infrastructure necessary to sustain the continuity of the trilateral partnership.

While as with any task force effort, not every recommendation offered in the report may have fully captured the thoughts of each member, we believe that by in large we are all comfortable with its overall recommendations and conclusions. It was an honor to co-chair the Task Force, and we offer our personal endorsement of the final report on our deliberations.

The Honorable Christopher J. Dodd
Chairman and CEO Motion Picture Association of America

His Excellency José María Aznar
Former Prime Minister of Spain

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Executive Summary

It is time to redefine the transatlantic partnership. Europe continues to struggle with serious economic and political challenges, while the US economy stagnates and decision-makers in both the public and private sectors face a highly partisan political system. If the United States and Europe are to remain competitive—economically, politically, and strategically—in this increasingly multipolar world, they must reach out to partners who share their values and can contribute to a stronger transatlantic economy. That partner is Latin America.

Together, the United States, Europe, and Latin America should build a stronger, more equal trilateral partnership based on a community of interests and values—this is in the economic, security, and political interests of all three. Despite Latin America's expanding markets, rich energy and natural resources, and newfound confidence on the geopolitical stage, it has not been visible within the transatlantic relationship. Neither the United States nor most European governments have made the region a priority in their recent foreign policies.

Establishing a new era of deeper, more enhanced dialogue and engagement among Latin America, Europe, and the United States, along with Canada, will bring significant dividends for each, both economically and strategically. A renewed relationship must, however, be based on partnership. With the growing international clout that comes with political stability and economic growth, Latin America has diversified its relationships, becoming more integrated with the rest of the world.

Building such a trilateral partnership will not be easy. Latin America brings incredible diversity, both among countries and within them. The region is divided politically, and not all regional leaders may initially see the value of working with others. But only together can North and South America and Europe address many regional and global issues effectively.

Underlying the political and economic motives for a strengthened trilateral partnership is a common ideological tradition rooted in democracy and human rights. Latin America shares a similar historical commitment to these principles as Europe and North America and has made enormous strides in recent years toward living up to them. The continued success of all three partners depends on defending and deepening this community of values, because from this democratic tradition springs the opportunity for innovation, entrepreneurship, and consequently, more prosperous economies.

While Latin America still has work to do in strengthening democratic institutions, the region has demonstrated a remarkable dedication to developing political stability and, in many cases, open economies. As other world powers emerge that may not share these same values, it is all the more crucial that North America, Europe, and Latin America use this common ground to build reinvigorated cooperation that advances democratic principles and boosts economic and political competitiveness in a changing world economy. To that end, this report identifies five policy areas in which deepening the trilateral relationship contributes to the transatlantic partners' mutual interests, and from these areas flow specific policy recommendations.

1. **Building a Stronger Trilateral Transatlantic Marketplace**
   As Latin America continues to grow, diversify its economies, and develop its financial markets, the United States and the European Union stand to benefit from stronger trade and investment ties—as will Latin America. Together, the three regions should work to build a transatlantic economy by reducing barriers, expanding trade, increasing capital investment, and boosting competitiveness.

- **Launch a trilateral dialogue on trade and investment aimed at building an open marketplace between the United States, Europe, and Latin America, as well as Canada, including in agricultural trade**. Using the opportunity presented by the Transatlantic Trade and Investment Partnership (TTIP) negotiations, the three should establish a trilateral process aimed at removing barriers to trade and investment. This dialogue could initially find ways to harmonize existing free trade agreements, and then focus on how Latin American countries might connect to the arrangements emerging from the US-EU negotiations. Eventually, this dialogue should focus on reducing US and EU agricultural subsidies that effectively restrict Latin America's most important export sector from those markets.

- **Expand integration among financial markets in the Americas and Europe but also strengthen regulatory oversight.** Regulators and banks in the United States, the European Union, and Latin America must work closely together to ensure the solvency of the system, standardize regulations across jurisdictions, and enforce effective oversight. Latin America should be included in discussions about the ongoing financial services reforms in the United States and European Union.

- **Facilitate the movement of highly skilled individuals and others who will reinforce the integration of this trilateral marketplace.** This could include developing trilateral "fast track" visa and border entry schemes for businesspeople as well as more visas for highly skilled individuals.

- **Identify trilateral projects that will promote competitiveness and entrepreneurship.** Although each region must address its own competitiveness challenges, there are enormous opportunities to engage in discussions on infrastructure development, including the hemispheric electrical grid and transoceanic corridors. These and other projects should foster entrepreneurship and social development.

2. Creating Human Capital

Quality education is key to building competitiveness in a globalized marketplace, the cornerstone of economic growth. The United States, Europe, and Latin America can work together to shape more effective education policy that drives innovation.

- **Compare best practices in targeting poverty reduction and childhood development.** Latin America's innovative Conditional Cash Transfer (CCT) programs hold lessons for the United States and European Union about the efficacy of targeted antipoverty approaches. The United States and Latin America should follow the example of some European countries that invest heavily in early childhood development—investments that yield significant returns into the future.

- **Work collaboratively to strengthen education and research linkages as a way to spur innovation.** Governments should reduce legal and institutional barriers to crossover between universities and the private sector. They should also encourage international collaboration between researchers and expand existing educational exchange programs. This will require facilitating educational exchange visas for both researchers and students.

- **Compare best practices in technical and vocational education, and in online and non-traditional learning.** Europe is ahead in providing high-value vocational educational tracks to their students; the US and Latin American governments can learn much that will help their schools incorporate such technical learning options. The Americas and Europe can also learn from each other about effective ways of using information and communications technologies, especially in programs that will facilitate greater international collaboration.

3. Managing Energy Riches and Natural Resources

Global energy supplies and markets are facing a great transformation that could provide a significant opportunity for North and South America, as well as Europe. Latin America is already a major producer of energy, including oil and gas, hydro-electric and thermal energy, and biofuels. A stronger resource partnership would provide a strategic boost for a new transatlantic community as it seeks to remain competitive in an evolving global economy.

- **Launch a comprehensive trilateral energy dialogue.** The United States, European Union, and Latin America should initiate a trilateral energy dialogue in the coming year to address the shifting global energy landscape and to share best practices across the broad sector of energy policy. These gatherings could provide a forum for strategic discussions as well as establishing initiatives on specific energy and resource-related priorities.

- **Foster best practices and greater trilateral cooperation in strengthening the regulatory framework for natural resource projects.** The United States and European Union can assist Latin America in identifying best practices regarding state oversight, environmental and safety regulations, compensation, and tax structure in this sector, especially those that ensure transparency, predictability, and fairness of the rules of the game, while injecting some competition into the sector. If they can agree on some best practices, the partners should explore the possibility of more compatible, harmonized regulatory frameworks.

- **Identify potential collaborative projects in research and development (R&D) and infrastructure.** Faced with budgetary constraints, one way of leveraging R&D funding is through greater cross-border cooperation. The trilateral energy forum could identify a few keystone projects that governments would support through their R&D budgets, as well as a few key cross-border infrastructure projects.

- **Examine best practices in managing energy revenues, including creation of sovereign wealth funds.** Norway and Chile especially present valuable lessons on using wealth from natural resource development to create national consensus.

4. Addressing Transnational Crime and Boosting Public Security

The drug trade has for too long been identified with Latin America alone. In reality, it is a transatlantic—even global—phenomenon that affects both day-to-day citizen security and the consolidation of democratic institutions.

- **Refocus on demand and prioritize law enforcement efforts.** The United States and the European Union should expand efforts to prevent, treat, and reduce the harm associated with drug use. At the same time, law enforcement capacity is finite, and enforcement should focus on the drug trade's most harmful aspects by targeting large-scale suppliers and traffickers of the most dangerous and profitable substances, while maintaining basic citizen security as a priority.

- **Take steps to limit the cross-border flow of deadly assault weapons.** These weapons spawn violence on America's streets and find their way wholesale to Latin America. While addressing this challenge within the United States, the Obama administration should also pursue stronger efforts to limit cross-border transfers of these items.

- **Improve coordination on anti-money laundering (AML).** Latin America and EU banking systems are increasingly called upon to meet US requirements on stringent anti-money laundering policies. The system will be stronger if regulators work together to build capacity and to review actual implementation.

- **Deepen trilateral cooperation in building effective institutions to support rule of law.** The United States and the European Union should continue and increase support for institutions such as judiciaries, local police forces, and penitentiaries in Latin America.

5. Strengthening the Trilateral Institutional Framework

If the United States, Europe, and Latin America are to build a stronger strategic partnership, they must also build a stronger institutional framework that ensures routine consultation and collaboration. Some institutions already exist, especially the Organization of American States (OAS) and Community of Latin American and Caribbean States (EU-CELAC) summit process, but there should be more trilateral integration as well as recognition of Latin America's emerging importance in multilateral institutions.

- **Support progress toward multilateral integration in Latin America.** Latin America is developing important multilateral frameworks, both within the region and with others. The United States and Europe should encourage these efforts, even when the focal point is Asia, as these frameworks may develop into platforms for greater cooperation.

- **Expand Latin American participation in institutions of global governance.** Latin America's growing clout and maturity on the world stage means that it is time for the region to play a greater role in the institutions that govern it. The Group of 20 (G20) structure already recognizes this by including Argentina, Brazil, and Mexico, but the Organization for Economic Cooperation and Development (OECD), for example, includes only Mexico and Chile. The United States and Europe should consider supporting efforts to gain Latin America a permanent seat on the UN Security Council.

- **Initiate a trilateral EU-US-Latin America summit.** The United States, European Union, and Latin America should initiate a summit process to herald a new era in relations and to discuss steps to build a more strategic partnership. Building on the Summit of the Americas and the EU-CELAC summit, governments can meet at expert level to define key issues and use ministerial meetings to create commitment among governments and other stakeholders before a summit is held prior to the end of the Obama administration.

A New Transatlantic Partnership

It is time to redefine the transatlantic partnership. Economic challenges continue to test the European Union. The United States is slowly emerging from five years of low growth and high unemployment, while its political system has been plagued by severe partisanship. Yet the United States and the European Union together make up roughly 40 percent of the global economy and remain the most innovative and productive regions with the world's highest standard of living. By 2060, however, they are expected to comprise only 24 percent of the global economy.[1]

To remain competitive—economically, politically, and strategically—they must expand their relationship, reaching out to others who share their values and who will contribute to a stronger transatlantic economy. Those new partners can best be found in Latin America. ***Together, the United States, European Union, and Latin America should build a stronger, more equal trilateral partnership based on a community of interests and values—this is in the economic, security, and political interests of all three.***

Latin America is of growing strategic importance, with expanding markets, rich energy and other natural resources, and newfound confidence and maturity on the world's geopolitical stage. Yet, for too long, Latin America has been scarcely visible in the transatlantic relationship. Neither the United States nor most European governments have made the region a priority in their recent foreign policies. Instead, East Asia, North Africa, the Middle East, and even South Asia have taken center stage. Those European governments that have focused on Latin America—primarily Spain and Portugal—have long-standing historical ties.

The European Union has established a summit process with Latin America, which is an important step toward diversifying European interest in the region. But the region still receives far less attention than it deserves, given the material value of the relationship. For example, European foreign direct investment in Brazil is larger than in Russia, India, and China combined.[2]

Establishing a new era of dialogue and partnership among Latin America, Europe, and the United States will bring significant dividends for each, both economically and strategically. A renewed relationship must, however, be based on the recognition that Latin America can no longer be treated as merely a passive, junior partner. While Europe and the United States have struggled through economic crisis and malaise and given priority to the Middle East and Asia, Latin America has narrowed the gap. Its economies have grown and its financial systems have proven resilient throughout crisis. With the growing international clout that comes with political stability and economic growth, it has diversified its relationships, becoming more independent of the United States and more integrated with the rest of the world.

It is in the interest of all three to halt this drift in relations and work closely together to address the regional and global challenges presented on the ever-changing geopolitical and global economic stage. At first it may be tempting to focus on the issues that dominate the trilateral agenda, such as energy, transnational crime, and development. But the Americas and Europe should use this new partnership to reinforce their influence on the global stage as well, addressing such issues as cybersecurity, climate change, agriculture and water, and international legal protections

[1] Organization for Economic Cooperation and Development (OECD), "Looking to 2060: Long-term growth prospects for the world," http://www.oecd.org/eco/economicoutlookanalysisandforecasts/lookingto2060.htm.

[2] Eurostat, "Foreign direct investment statistics," June 2012, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Foreign_direct_investment_statistics#Further_Eurostat_information.

for human rights. Agreement will not always be easy, but as more Latin American countries already are global leaders, such a partnership should reap global benefits. This report presents concrete steps for reorienting this relationship into a forward-looking trilateral framework, based on a shared history and heritage, as well as a strong congruence of strategic and economic interests.

The past two decades have seen dramatic shifts in the political economy of all three transatlantic partners, with Latin America serving as perhaps the most dramatic example. Following the collapse of the state-driven import substitution model and the debt crises of the 1980s, the region has, with some clear exceptions, reemphasized free trade, committed to lower inflation and more balanced budgets, and chipped away at poverty and inequality through innovative measures targeted at the poorest. Thus, while Latin America's economies are now more open and diversified, they are also less vulnerable to economic conditions elsewhere. Immediately following the North Atlantic financial crisis and recession, Latin America achieved the second-largest regional growth rate globally, reaching nearly six percent in 2010, largely due to expanding trade in primary commodities with China.[3] In 2007, compared with the high deficits and debt-to-gross domestic products (GDP) levels in the United States and the European Union, the region had an average 0.3 percent budget surplus. At the height of the crisis, the regional average deficit rose to 2.9 percent, falling back to 1.5 percent in 2011, even with many countries pursuing fiscal stimulus.[4]

This is not to say that Latin America has caught up with the United States or Europe, or that more cannot be accomplished. Its growth has been impressive, but the gap in development is still, on average, wide. While regional macroeconomic figures are strong, there are huge variances between countries. Public debt as a share of GDP in Latin America ranges from 11 percent in Chile and 12 percent in Paraguay, to 65 percent in Brazil and 71 percent in Nicaragua. Caribbean countries vary even more drastically, with Haiti reaching figures as low as 12 percent in 2011, while public debt figures in Grenada, Jamaica, and St. Kitts and Nevis are well over 100 percent of GDP.[5] In addition, prolonged economic stagnation in the United States and European Union will have implications for global commodity demand and thus the economic outlook of Latin America. The region must continue to develop higher-value economies, improve education systems, further reduce poverty, and push back against rising populism and protectionism. A stronger relationship with the United States and Europe will help Latin America continue to grow economically, while providing those north Atlantic regions with a more dynamic partner.

A major challenge in building such a trilateral framework is the diversity of Latin America. In terms of economic conditions, Mexico, Brazil, and Colombia have achieved a high level of industrialization and diversification, while Bolivia, Venezuela, and Argentina still depend almost entirely on their primary goods commodities to power growth. Diversity also exists within some countries, with extreme poverty and remoteness existing alongside high economic growth rates and increasing international investment. Given this diversity, for many in the United States and Europe, it has been easier to focus policy on bilateral relationships. It is obviously necessary to deal with individual countries, especially the regional powerhouses of Mexico and Brazil, but there is also much to be gained by adopting a more strategic approach to the entire region.

In addition to uneven levels of economic development, different parts of the region are headed in different directions when it comes to geopolitical clout and healthy democratic institutions. Brazil, for instance, is a newly assertive regional power with a wide array of international economic and political relationships—its *multilatinas* (multinational Latin American firms) make major investments in the United States, Europe, the Middle East, and Africa, and it receives billions in Chinese investment. Brazil can either be a leading figure in a renewed trilateral partnership or, in the absence of proactive leadership, a weathervane that points Latin America away from the West.

The fractures across Latin America—between Central and South America, between countries of the Bolivarian Alliance for the Peoples of Our Americas (ALBA), and those with more liberal market economies such as Chile, Colombia, Peru, and Mexico—extend to the health of their civil societies, as well.[6] Countries such as Venezuela, Ecuador, and, increasingly, Argentina, have exhibited a troubling disrespect for basic rule of law and division of power. Liberal democracy is about more than who wins elections—and

[3] Luis Alberto Moreno, *The Decade of Latin America and the Caribbean: A Real Opportunity* (Washington, DC: Inter-American Development Bank, 2011), p. xiii.

[4] Economic Commission for Latin America and the Caribbean (ECLAC), *2011 Preliminary Overview of the Economies of Latin America and the Caribbean* (Santiago: United Nations, 2012), p. 32.

[5] MF, "World Economic Outlook Database," October 2012, http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx.

[6] The Bolivarian Alliance for the Peoples of Our Americas (ALBA) is a regional bloc, formed in 2004 by Venezuelan and Cuban Presidents Hugo Chávez and Fidel Castro. It was created as an alternative to the US-led Free Trade Area of the Americas. The leaders of the member countries—Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Honduras, Nicaragua, Saint Vincent and the Grenadines, and Venezuela—meet annually to discuss initiatives and strategies for social, political, and economic integration.

while these countries could still change course, they are steadily eroding the independence of their judiciaries and their press freedoms. Because of these differences, relations with individual governments will remain key. But especially when viewed in the context of global challenges, Latin America offers more than the sum of its national parts.

In redefining the Atlantic, policymakers must also consider the involvement of two others bordering that ocean: Canada and Africa. Canada clearly belongs in this transatlantic triangle, and its participation is envisioned throughout the actions recommended in this report. Closely integrated with the US economy through the North American Free Trade Agreement (NAFTA) and about to conclude a free trade agreement with the European Union (still under negotiation as this report goes to press), it is obviously a firm proponent of the core “Atlantic values” of democracy and market economics. Canada has also been a member of the OAS since 1990.

Africa, like Latin America, has seen an increase in the development of democratic government and market economies in the last two decades, and that should not be dismissed. It is also increasingly connected to the US-Latin America-Europe triangle through trade and investment, including, unfortunately, the flow of drugs from Latin America through Africa to Europe. But overall, Africa’s problems, especially in terms of brutal warfare and persistent corruption, remain too significant for it yet to be a serious, contributing partner in the Atlantic Community. Africa—from South Africa and Nigeria, to the Central African Republic and Somalia, and then on to Egypt—is much more diverse than Latin America, making it even harder to integrate into a regional partnership. Right now, a partnership that included Africa would need to address its domestic instabilities rather than external, global challenges; indeed, one project for the new trilateral partnership may be to define common policies and potential areas of cooperation in addressing Africa’s challenges. If in the future the trilateral partnership proposed here expands to include a stronger, more democratic and peaceful Africa, that should be welcomed.

A Trilateral Partnership Rooted in Values

Underlying the specific policy issues examined in this report is the bedrock of shared values that form a foundation for this transatlantic partnership. Latin America shares historical, ideological, and political roots with Europe and the United States, and the continued success of all three partners depends on reinvigorating and deepening this community of values.

Individual rights, open societies, and strong democratic institutions are the central pillars of the Western political tradition. This is not without its conflicts and contradictions—from the impositions of colonial powers to the waves of “democratic interruptions” and military regimes throughout Latin America—but it remains a shared reference point, a mutual aspiration, and a common source of democratic standards to which the members of the transatlantic community can hold each other, and themselves, accountable.

Latin America has long conceived of itself as part of the Western tradition, even when rebelling against its colonizers. Independence heroes like Simón Bolívar (Bolivia), José de San Martín (Argentina), and Bernardo O’Higgins (Chile) drew on the political philosophies of the European Enlightenment and the American and French revolutionaries, and sought prosperity through free commerce rather than colonialist mercantilism. The Pan-American Union of 1890 brought together Latin American countries and the United States to address questions of free trade and law. The Latin American bloc was central to the passage of the 1948 UN Universal Declaration of Human Rights and more recently enshrined its commitment to liberal values with the adoption of the Inter-American Democratic Charter in 2001.

Across the Americas and Europe, political leaders widely recognize that the struggle for democracy and individual rights ultimately cannot be separated from economic prosperity and the rules-based, open economies that make it possible. Innovation, entrepreneurship, efficiency, and a globally competitive middle class all spring from strong property rights, rule of law, transparent and accountable institutions, and individual autonomy. The growth of the middle class in Latin America both reinforces these values and creates increased demand for their full realization.

Latin America, Europe, and the United States each face a distinct set of challenges in terms of human rights and democracy. But this shared tradition of values does provide a strong framework for approaching the political and economic challenges that continue to confront not only Latin America, but the United States and Europe as well.

In the United States, the declaration of a semipermanent war against terrorists has raised questions about the reach of government power, including in citizens’ private lives, with such issues as electronic privacy and warrantless surveillance. Controversy also remains about the torture and indefinite detention of terrorism suspects. Increasing partisanship in the political system has led to legislative stalemate unable to address a number of key issues.

Europe is itself in the midst of a historic transformation of its democratic and economic institutions. The creation of the European Union was a historic institutional innovation, and it later successfully promoted democratic reform in multiple former Soviet-bloc countries. Now, as the eurozone emerges from economic crisis, the European Union is in the midst of an unprecedented experiment in deeper fiscal and institutional integration, with significant implications for democratic legitimacy.

Meanwhile, Latin America has achieved an unprecedented level of democratic maturity. In a region once defined by authoritarian military regimes, only Cuba remains a dictatorship. While political instability has persisted in Honduras, Venezuela, and now Paraguay, the era of unelected juntas is in the past. But with some notable exceptions, like Chile and Uruguay, in many countries institutions remain weak, and personalistic leadership tends to dominate over programmatic platforms. The corruption and violence of the drug trade and the resurgence of authoritarian populism in the guise of "twenty-first century socialism" threaten democratic gains. Torture, disappearances, and extrajudicial killings are still far too common, whether carried out by criminal cartels, government agencies, or unaccountable vigilante or militia groups. Indigenous rights have surged to the forefront as a political issue, usually in response to the displacement or destruction of local communities without proper compensation or consultation. The failure of governments across the hemisphere to protect the human rights of indigenous peoples—despite in many cases having signed the UN declaration protecting those rights—has contributed to tensions both within and between countries across the region. Far beyond issues of compensation and consultation, the inclusion of indigenous peoples and the affirmation of their civil and political rights will be a key marker of the region's democratic evolution.

Finally, freedom of the press and of expression is under threat in some countries, either by heavy-handed state intervention in places like Argentina and Venezuela, or by criminal groups that target journalists in Central America and Mexico. Access to information, freedom of speech, and freedom of the press require continual safeguarding against new and continually more sophisticated means contrived to water them down. An independent press must be defended both in its traditional forms as well as its new manifestations brought about by technological advances—which are increasingly the means through which independent journalism fulfills its role. New and more effective international monitoring mechanisms are needed to guarantee freedom of expression, to condemn the violation of these rights where they occur, and establish and enforce proper and effective sanctions.

Despite these differences—or indeed because of them—it is more important than ever to create a renewed understanding of the common values shared by the transatlantic community. Although the United States, Europe, and Latin America face different challenges, both in substance and severity, their aspirations remain the same. The debate is how to live up to their values in the face of different conditions, not whether these principles are valid. As world powers emerge that may not share these values, even in aspiration, kindred communities become ever more important, as does a revitalized effort to defend and even advance those values together.

These challenges to our common democratic, liberal heritage point to the need for closer ties among the three regions. Our shared values provide a common language and bedrock on which to build. But a true trilateral partnership must also speak to each party's concrete interests. Together, the Americas and Europe must build a strong economic and political model that will preserve their competitiveness—and boost the prosperity of all their citizens—in a changing world economy. This report presents policy-oriented recommendations for US, European, and Latin American governments for advancing this critical agenda across five central issues:

- Building a stronger trilateral transatlantic marketplace
- Creating human capital
- Managing energy riches and other natural resources
- Tackling transnational crime and boosting public security
- Strengthening the trilateral institutional framework

Building a Stronger Trilateral Transatlantic Marketplace

Although much attention has been focused on the economic rise of Asia, it is Latin America that is the fastest-growing trade partner of the United States. The European Union is the largest single foreign investor in Latin America, accounting for 39 percent of total foreign direct investment (FDI) in the region in 2011. The European Union is also the leading recipient of Brazilian exports and its foremost trading partner, importing primarily agricultural goods and accounting for 21.7 percent of Brazil's total trade. The United States is a top national investor in the region and supplied 18 percent of total FDI there in 2011. The United States is also Latin America's top trading partner with $771 billion in trade in 2011, with the next closest national trading partner only reaching a third of that trade volume.[7] The majority of investment inflows in Latin America were directed toward the service industry (45 percent), but manufacturing and natural resources also drew a significant portion of FDI (38 percent and 18 percent, respectively).[8]

The evidence is clear: trade and investment ties between the United States, the European Union, and Latin America continue to be deep and strong. And as Latin America continues to grow, diversify its economies, and develop its financial markets, these ties will only increase in importance. As, for example, Chinese labor rates have risen, Mexico and Central America have become more attractive as manufacturing platforms for US imports. But despite this potential, too little attention has been paid to the need to build a truly transatlantic economy. By opening markets, increasing investment ties, and interconnecting financial systems, the United States, European Union, and Latin America could find a great opportunity.

Economically, Latin America's position vis-à-vis the United States and Europe has changed dramatically over the past two decades. The traditional aid paradigm no longer applies; indeed, we are seeing the death of traditional aid. Latin America's most pressing need is no longer infusions of cash. Instead, it needs partnerships that will help it expand trade, develop its technological skills, diversify its economies, and assist in building and strengthening institutions.

This move away from the aid paradigm is reinforced by the precarious fiscal situations of the US and many European economies. In the United States, total debt has surpassed 100 percent of GDP, and the EU average is over 82 percent.[9] Official development assistance budgets are being cut and—perhaps more important—development philosophies are changing. Instead of delivering development funds, the priority has become promoting trade, economic growth, and effective institutions.

Against this backdrop, Latin America has also been engaged in growing its so-called "South-South" economic and investment relationships with Africa and Asia. The historical model of capital and technology flowing from North to South, while primary goods flow the other direction, is no longer dominant. Brazil now spends some $4 billion a year on foreign aid and subsidized financing abroad, 55 percent of which goes to Africa.[10,11] *Multilatinas* like Brazil's infrastructure giant Odebrecht and Mexico's food manufacturer Grupo Bimbo are investing in Africa and China, and Brazil's investment bank Banco BTG Pactual recently committed to raising $1 billion for an African investment fund, capitalized primarily by private Brazilian investors.

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7 *Latin Business Chronicle*, "Latin America's Top Trading Partners," July 20, 2012, http://www.latinbusinesschronicle.com/app/article.aspx?id=5725.

8 ECLAC, *Foreign Direct Investment in Latin America and the Caribbean* (Santiago: United Nations, 2012), p. 38.

9 Reuters, "Europe's debt rises, still below U.S., Japan," February 6, 2012, http://uk.reuters.com/article/2012/02/06/ uk-eu-debt-idUKTRE8150ZL20120206.

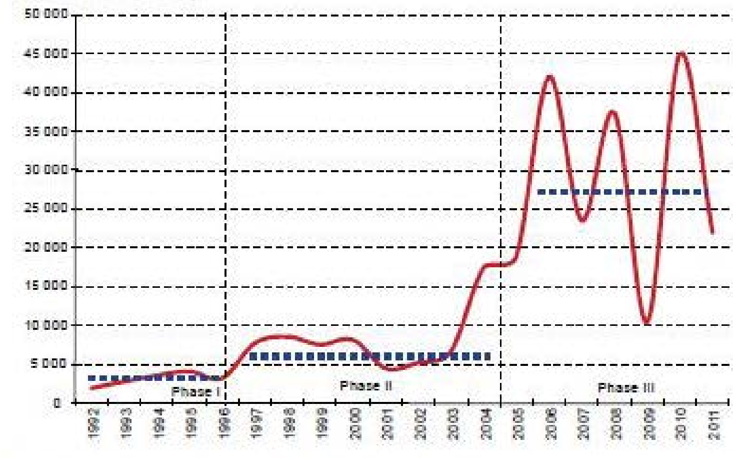
10 *Economist*, "Brazil's foreign aid programme: Speak softly and carry a blank cheque," July 15, 2010, http://www.economist.com/node/16592455.

11 *New York Times*, "Brazil Gains Business and Influence as It Offers Aid and Loans in Africa," August 7, 2012, http://www.nytimes.com/2012/08/08/world/americas/brazil-gains-in-reaching-out-to-africa.html.

Figure 1:

Latin America and the Caribbean: Outward Foreign Direct Investment, 1990-2011

(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official data from the different countries.

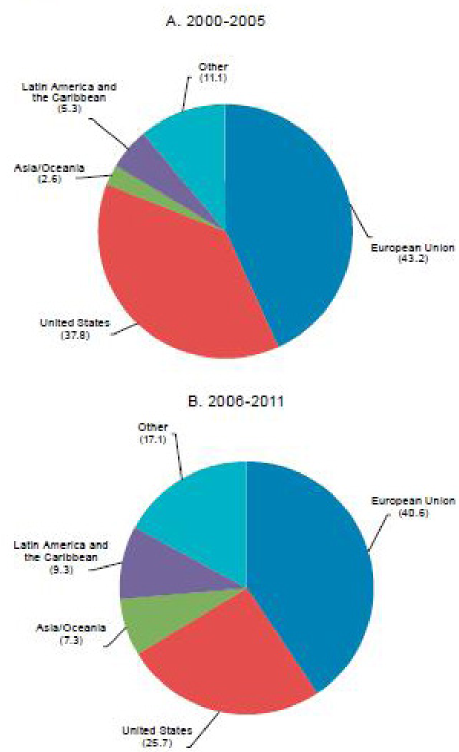
Indeed, Latin American investment abroad has grown significantly since 2004, as shown by Figure 1. Although not nearly as large as European or US foreign direct investment, it does mark a significant shift in Latin America's role in the global economy. With these promising private sector leaders playing an ever-larger role in the international economy, Latin America is well positioned to take the next step. But the data also shows a plateau—the region risks hitting a ceiling unless it can address some fundamental deficiencies in its competitiveness.

What do a changing Latin America and a stagnant or low-growth United States and European Union mean for the future of transatlantic trade and investment? The private sector in Latin America is plunging ahead with operations and investments abroad. And others, especially China, have increased their investments in Latin America. Latin America is now the largest regional recipient of Chinese FDI.[12] Perhaps because of their economic struggles, the United States and European Union have failed to take advantage of a period of Latin American growth to deepen commercial ties. As Figure 2 shows, the US and EU's share of investment in Latin America has declined relative to the increased investment flows from Asia and elsewhere. That Latin America is expanding its commercial relationships is a good thing, as trade and diplomatic relationships should not be exclusive.

Figure 2:

Latin America: Foreign Direct Investment by Origin, 2000-2005 and 2006-2011

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and estimates by central banks in Latin America and the Caribbean.

[12] Enrique D. Peters, *Chinese FDI in Latin America: Does Ownership Matter?* (Somerville, MA: Working Group on Development and Environment in the Americas, 2012), pg. 1.

A closer partnership with the advanced economies could bring Latin America opportunities to diversify its markets, expand its supply chains, gain access to new technologies, and develop higher value-added industries. To date, much of its exports have been commodities, which are vulnerable to sudden price shifts. Thus, Latin America should be proactive in pursuing the steps necessary for this diversification—welcoming investment, improving competitiveness, and developing infrastructure. With its emerging consumer middle class demanding a higher standard of living, Latin America must take advantage of what globalization has to offer. For the United States and the European Union, a closer economic relationship with Latin America not only offers the opportunity of a closer energy and resource partnership and access to a growing cohort of consumers, but also the opportunity of greater investment in a relatively high-growth economy.

This is not only an issue of trade and investment; the integration and regulation of financial systems must be addressed as well. Stock markets in Mexico City and São Paulo are playing key roles in the globalization of the *multilatinas*. The integration of the Santiago, Lima, and Bogotá bourses into the Integrated Latin American Market has also been important. Promoting the participation of US and European investors in Latin American financial markets, and facilitating the trading of Latin American stocks in New York and London, will accelerate the expansion of *multilatinas* into these markets. This movement is happening even while the United States and Europe are dealing with the aftereffects of their financial crises. The United States is still in the process of developing the implementing regulations for Dodd-Frank, the reform of its financial services. Europe has embarked on a long process of reforming its banking systems and financial services. US and European leaders are well aware that reforms on one side of the Atlantic can have serious consequences for banks and other firms that work on the other side. Those reforms can also affect Latin American firms that seek to play in the global arena.

It is well known that both the United States and the European Union face competitiveness challenges—ranging from deteriorating infrastructure in the United States to rigid labor laws in Europe—that will hinder growth in their economies for some time to come. Latin America faces a different challenge, one that is made clear by the experience of the *multilatinas*. These firms are growing quickly, but now find it difficult to reinvest in Latin America. In short, to continue to grow, they must go abroad. This problem largely stems from human capital and competitiveness issues that hamper economic dynamism in the region. Many Latin American countries occupy the lower rungs of international evaluations like the World Bank's "Ease of Doing Business" rankings, which measure the obstacles to operating a business. Business leaders also face a Latin American labor force that has too often graduated from an education system without the skills necessary for success in the current knowledge-driven economy. In some European countries, we now see the reverse: an educated workforce with few jobs available. As a result, migration from Spain and Portugal to Latin America has increased in recent years.

The integrity of public economic information is key to attracting business investment and building trust among potential investors. The United States has a tradition of generating trustworthy and comparable information that allows policymakers, companies, and individuals to make effective decisions. This culture is not as widespread in Europe, and certainly less so in Latin America, where a lack of information or a manipulation of figures impedes effective long-term planning and decision-making. Promoting the benefits of high-quality, publicly available statistical information is a necessity. Financial and technical cooperation, better monitoring mechanisms, and sanctions for manipulated data are all important tools for helping to address this issue.

Entrepreneurship—that highly sought-after spirit of independent effort, innovation, and risk-taking—relies on institutional arrangements and legal frameworks that either spur entrepreneurial efforts or discourage them. Both Europe and Latin America can learn from the United States in this respect. In Latin America, in particular, there is a need for policies that boost the impact of small- and medium-sized enterprises (SMEs), most of whom operate in the informal sector. The OECD and the Economic Commission for Latin America and the Caribbean estimate that 99 percent of businesses in the region are SMEs, and these employ 67 percent of the workforce. However, the productivity of these firms is six times less than that of larger firms. SMEs need greater access to finance, expanded information and communications technology (ICT) networks, and more robust job-training programs in order to reach their full potential.[13]

The key to building a stronger trilateral transatlantic marketplace will be to find a way forward in reducing remaining barriers to trade and investment. In 1994, NAFTA came into force between Canada, the United States, and Mexico, blazing a path for the integration of trade and supply chains in the Americas. Nearly two decades later, the Mexican economy has seen important advances, including the modernization and expansion of a significant domestic manufacturing sector. The stalled Doha Round and the

13 OECD and ECLAC, *Latin American Economic Outlook 2013: SME Policies for Structural Change* (Paris: OECD Publishing, 2012), p. 17.

collapse of negotiations for a Free Trade Agreement of the Americas (FTAA) has not meant that trade negotiations halted; rather, they have progressed largely in bilateral and sub-regional forums. The United States has recently ratified free trade agreements (FTAs) with Colombia and Panama, and has already put agreements into effect with Chile, Peru, and the Dominican Republic and Central America (CAFTA-DR). The European Union has concluded bilateral trade accords with Mexico, Peru, Colombia, Chile, and the countries of Central America. It is also close to concluding an FTA with Canada.

In Latin America, such commercial integration is also proceeding at a sub-regional level—as in the case of the Central American Integration System (SICA), involving eight Central American countries, and the Pacific Alliance of Chile, Colombia, Mexico, and Peru. SICA seeks to remove tariffs among its members and to develop a common market, while the Pacific Alliance agreed in January 2013 to eliminate tariffs on trade in goods between the four members.

In January 2013, Obama announced that the United States and the European Union would soon launch a TTIP. This comprehensive negotiation is likely to include eliminating or reducing conventional barriers to trade (i.e., tariffs and quotas); enhancing the compatibility of regulations and standards; elimination or reduction of "nontariff barriers" to trade; removing limits on investment; opening government procurement markets; enhanced cooperation on the development of rules and principles on global issues; and common economic goals. As the United States and Europe move to create this new, open transatlantic market, the bulk of Latin America risks finding itself excluded, unless active steps are taken to find opportunities to build trilateral trade and investment.

To reverse the prospect of drift between the transatlantic economies, policymakers must address the health and growth of their own economy, as well as the ties—sometimes weak and sometimes strong—that link these three regions. Specifically, they should:

- **Launch a trilateral dialogue on trade and investment aimed at building an open marketplace between the United States, Europe, Latin America, and Canada, including in agricultural trade.**

  Using the opportunity presented by the TTIP negotiations, Latin America, the United States, the European Union, and Canada should establish a process to remove barriers to trade and investment and, over the long term, create a genuine trilateral transatlantic marketplace. Clearly, some Latin American countries will be reluctant to join such discussions, and in the short term at least, a revival of a hemispheric agreement such as the FTAA is very unlikely. But if others begin to benefit from more openness in trade and investment, those who have been reluctant to engage may eventually find the momentum difficult to resist. As a first step, the proposed dialogue could review the terms of the bilateral FTAs, with the goal of identifying and harmonizing provisions that are shared among those agreements. They could also explore whether those provisions that exist in several agreements could be extended to new parties. Second, this dialogue could also be crucial in keeping others informed of progress in the US-EU negotiations. As these talks move forward, some Latin American countries may identify particular areas of that agreement that they might wish to join; this should be explored and encouraged for those willing to meet the obligations. There might, for example, be support for a tariff-free zone on clean energy products and services, or some other subsection of the likely US-EU accord.

  Third, once this progression of steps has created some confidence, the three should address a vital but difficult issue—creating a level playing field for agricultural goods. With agricultural prices high and both the United States and the European Union facing budget pressures, this may be an optimal moment. Reducing subsidies, as well as the remaining tariffs and quotas, would not only give Latin American producers more access, it would benefit domestic consumers and taxpayers in the United States and Europe. Engaging Brazil may take time, but will be essential as that country is on the way to becoming a true global breadbasket. Yet, because the United States and European Union must deal with the issues of agricultural trade in their own bilateral negotiation, there is now an opportunity. They can make real progress building deeper ties with Latin America by ensuring that its largest export sector is no longer effectively sidelined from North Atlantic markets. Clearly, using the TTIP to create a more open trilateral market will be difficult and will require a careful progression of steps. Some may be reluctant to see the end of trade preferences for certain countries, but their phase out is certainly part of the logic behind a trilateral accord. In the end, the US-EU negotiations offer an opportunity that should not be neglected.

- **Expand integration among financial markets in the Americas and Europe, but also strengthen regulatory oversight so that capital can flow more securely and productively among these markets.**

Globalization, trade, and foreign investment all rely on a healthy international financial system. Greater interaction between regional stock markets and expanding pools of investment capital can be strong forces for economic growth. But the collapse of the subprime market in the United States, the precarious state of European banking, and the money-laundering scandals at major institutions, including Standard Chartered and HSBC, undermined for a time the proper function of transnational banking, which is to facilitate international commerce.

Regulators and banks in the United States, the European Union, and Latin America must work closely together to ensure the solvency of the system and enforce effective oversight. The ongoing financial reforms in both the United States and the European Union provide an opportunity to move toward harmonizing regulations across jurisdictions. This will also create a healthier environment for promoting increased US and European capital investment and private equity in Latin America, and vice versa.

- **Facilitate the movement of high-skilled individuals and others who will reinforce the integration of this trilateral marketplace.**

A true marketplace requires that individuals who contribute to a more integrated economy can move relatively freely. Governments in the Americas and Europe should consider establishing “fast track” visa and border entry facilitation for approved frequent travelers, such as business executives. They also should consider easier visa access for those with high-level skills. Legislation is pending in the United States to increase the quota of so-called “STEM (science, technology, engineering, and math) visas” for highly skilled immigrants to 55,000, but this is only a small step in addressing the problem; currently it is estimated that 600,000 skilled manufacturing jobs go unfilled in the United States because of a lack of qualified applicants.[14] Recent research by the Brazilian Confederation of Industry has found that seven out of ten industrial enterprises in Brazil are also facing a lack of qualified workers.[15] Governments in North and South America, along with Europe, should be opening doors to more immigrants with these skills as a way of boosting competitiveness in high-value, technologically oriented industries.

- **Identify trilateral projects that will promote competitiveness and entrepreneurship.**

The United States, European Union, and Latin America each face challenges in building competitive, innovative economies. In the European Union, national situations differ, but the most common challenges involve labor markets, access to capital for start-ups, bankruptcy regulations, and heavy regulation. In the United States, the overwhelming challenge is to be found in infrastructure, with education also of concern. For its part, Latin America must focus on improving the ease of doing business—the process of starting and operating a business, hiring and firing workers, and applying for business loans; modifying the tax system to broaden the revenue base; and reforming state-owned enterprises to introduce competition, whether through full or partial privatization or the inclusion of private sector partnerships.

As part of their dialogue to create a more integrated trilateral marketplace, the governments should seek to identify specific projects that would reinforce that integration through aggressive and coordinated investments, especially in infrastructure projects (such as the upgraded Panama Canal) that foster greater trade and investment. Projects associated with global transportation and shipping, or with energy, are likely to be the most suitable. Apart from specific projects, the dialogue is also likely to reveal opportunities to learn from each other. Although each region must address its own competitiveness challenges, lessons can be learned across borders. The role of public-private partnerships in developing infrastructure projects is just one example, as is the importance of the rule of law. Similarly, a trilateral discussion focused on the development of small and medium enterprises could do much to create conditions congenial for greater entrepreneurship. Given the explosive growth of urban areas, particularly in Latin America, another area of cooperation could be the sharing of best practices in municipal management through either mayor-to-mayor exchanges or transatlantic twin city programs.

[14] Deloitte and The Manufacturing Institute, *Boiling point? The skills gap in U.S. manufacturing* (New York: Deloitte Development, 2011), p. 2.

[15] *New York Times*, “Wanted: Skilled Workers for a Growing Economy in Brazil,” July 2, 2008, http://www.nytimes.com/2008/07/02/business/worldbusiness/02real.html?pagewanted=all.

Creating Human Capital

Competitiveness is the cornerstone of economic development and growth. The United States, Europe, and Latin America must each address key issues if the transatlantic economy is to remain competitive in the global marketplace. Quality education is key to building competitiveness in a globalized, high-skill international economy. Education—including primary, technical, and secondary—is a key factor in enabling entrepreneurship and is thus a prime motor for spreading wealth, enhancing social mobility, boosting job creation, and encouraging technological innovation.

Each year, the World Bank's Doing Business Report measures economic competitiveness in over 180 countries by ranking each country on a variety of indicators. These include the cost of regulation, the bureaucracy associated with starting and running a business, access to necessary resources like electricity, ease of getting credit, and the ability and willingness of the state to appropriately enforce contracts. This data is a good indication of the institutional hurdles that entrepreneurs—as well as big business—face in their effort to grow and innovate. Not surprisingly, data on competitiveness and education correlate in the most economically successful countries. Thus, Asia Pacific areas such as Singapore and Hong Kong top the list in the 2013 Doing Business Report. Meanwhile, in international education rankings, particularly the OECD's Program for International Student Assessment rankings, Asian countries occupy four of the top five spots on student performance. According to Deloitte's Human Capital Trends 2012 report, two of the top three things investors look for are dynamic emerging economies and an educated workforce. In other words, developing countries have a real chance at economic maturity if they can find ways to invest in sustainable human development.

Germany and the Nordic countries have been leading examples, having succeeded in expanding the role of technical and vocational higher education and promoting innovation-oriented career tracks. The rest of Europe, the United States, and Latin America all struggle to different degrees with this aspect of human capital. While Latin America has expanded educational access and consistently spends as much or more on education than the OECD average, it still faces low-quality schools and rock-bottom test scores. The United States, as well, has struggled with both keeping its youth in the classroom and with delivering an education of consistently high quality.

A particular challenge is overcoming the achievement gaps that stem from deep socioeconomic inequalities. In the United States, for instance, poverty levels go a long way in explaining the persistent achievement gap between Hispanic and non-Hispanic students. Hispanic students are less likely to be enrolled in childhood learning and kindergarten programs. They have the highest dropout rates in the country, at 15.1 percent compared to the 7.4 percent national average, and they disproportionately attend public schools that are larger and lower quality.[16] This gap is only one example of a dynamic that plays out across the transatlantic community. In Latin America, the wealthiest one-fifth of the population has an 83 percent completion rate for secondary school, compared to 25 percent for the poorest one-fifth.[17]

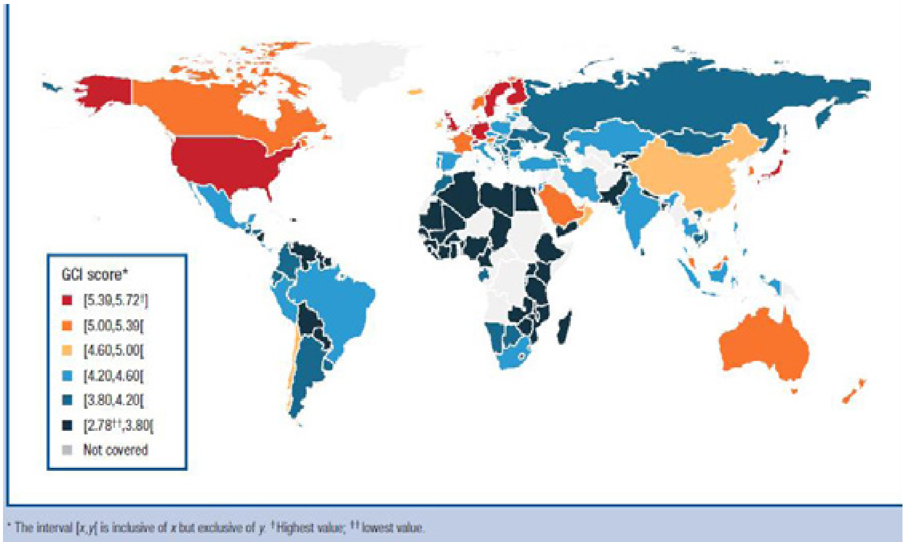
The impact of socioeconomic factors is a key reason for societies to focus on the role of health and childhood development as drivers of future educational attainment. Targeted investments in early childhood learning and programs that ensure that children have adequate nutrition, health services, and emotional support will yield immense returns by positioning young generations for success in later years that will redound to the benefit of society.

[16] National Center for Education Statistics (NCES), "Fast Facts: Dropout Rates," 2012, http://nces.ed.gov/fastfacts/display.asp?id=16.

[17] Moreno, *The Decade of Latin America and the Caribbean: A Real Opportunity*, p. 44.

Figure 3:

Regional Competitiveness in Perspective: US and Northern Europe Ahead



Source: World Economic Forum Global Competitiveness Index (GCI) 2012.

Brookings, for instance, has estimated that in the United States, universal preschool would cost $59 billion a year but eventually add $2 trillion to annual GDP.

The obstacles to improving education are myriad, but they must be addressed if the transatlantic community is to reach its potential in a world in which rising Asian economies are outperforming and outgrowing it. Teachers unions and the educational bureaucracy both in the United States and Latin America are too often resistant to reforms that would demand more accountability from teachers, allow for more innovation and flexibility in the education market, and give parents a greater role in the process. The reforms that are taking place are often isolated to a municipality or a provincial government, lacking coordination nationally. The involvement of the *multilatinas* in financing education reform efforts has surged, but both private sector donors and national governments have failed to effectively coordinate their efforts.

Indeed, the private sector must be a greater force for good in improving education. As Latin American governments have struggled, the new generation of *multilatinas* has an important role to play in promoting educational reform and, indeed, they are getting increasingly active. In 2011, the leading one hundred *multilatinas* and multinationals with a strong presence in Latin America contributed more than $550 million to education-oriented programs, more than the Fortune 500 contribute to education in all developing countries.[18] While the bulk of funding still rests with regional governments, and while the private sector can and should do more, this growing commitment to education is a promising sign.

Other challenges remain as well. In Chile, sustained controversy over the nation's highly privatized education system has led to a massive, disruptive student protest movement. Indeed, Chile's economic progress has, if anything, raised expectations and led to impatience for a world-class system. And Conditional Cash Transfer (CCT) education programs in Brazil, Ecuador, and Colombia have raised attendance without necessarily raising test scores or education quality.

Finally, it is critical to expand policies that promote innovation. One key area is technical education, which unfortunately suffers the incorrect perception that it is only a menial education—when in reality it helps drive high-innovation, high-productivity sectors of the economy. Germany knows this well, given the highly regarded technical education programs that have powered its export sector and helped it become the largest economy in Europe. Some 60 percent of German youth learn a vocation under

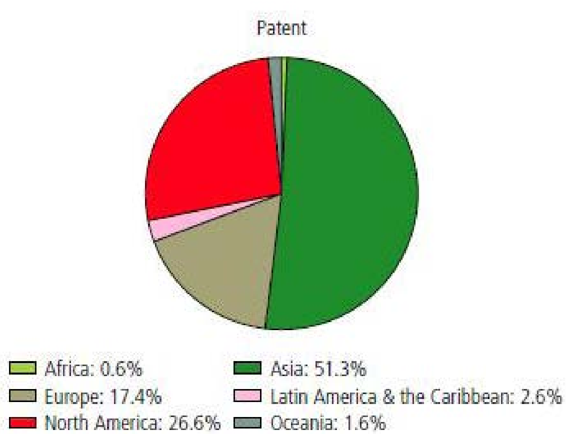
[18] Justin W. van Fleet and Gabriel Sanchez Zinny, *Corporate Social Investments in Education in Latin America & the Caribbean: Mapping the Magnitude of Multilatinas' Private Dollars for Public Good* (Washington, DC: Brookings Center for Universal Education, 2012), p. 4.

the country's "dual system" of combined classroom and vocational training, choosing among 350 state-recognized training occupations.[19]

There are other means as well: R&D spending, both public and private, is also key to developing new technologies and new processes. Yet US R&D has fallen behind that of Japan and South Korea, and Europe is even further behind in terms of the ratio of R&D spending to GDP. In Latin America, there has been a disconnect between the higher education system and the productive economy, as exemplified by the dearth of public support for R&D in the university systems. As the World Intellectual Property Organization dramatically demonstrates, Latin America is responsible for only a tiny slice of patents and trademarks, a key indicator of innovation. The United States can serve as an example in this respect, with its long tradition of generous and open-ended grant-making for its research universities, which have spurred innovation, patent-making, and commercialization of the results of academic research, driving overall economic development. The United States can also serve as an example in the area of venture capital, which gives entrepreneurs the means to scale their innovations and expand their market reach.

Figure 4:

Patents by Geographical Area



Source: World Intellectual Property Organization (WIPO) 2012 Facts and Figures.

As first steps toward building human capital and fostering innovation, the Americas and Europe should:

- **Compare best practices in targeting poverty reduction and childhood development.**

  Latin America's innovative CCT programs provide lessons for the United States and European Union on the efficacy of targeted antipoverty approaches. These programs, such as Mexico's *Oportunidades* or Brazil's *Bolsa Familia*, have helped incentivize better health and education outcomes but have also contributed to mitigating poverty and inequality in the region. Further, they have done so within sustainable budget frameworks. In 2009, for example, CCT programs in Latin America supported twenty-two million families in seventeen different countries, costing only 0.25 percent of regional GDP.[20] Given that many of the largest discrepancies in wealth distribution are no longer between countries but rather between regions or sectors within countries, expanding and improving upon these types of CCT mechanisms will be critical in reaching the extremely impoverished sectors that the region's growth has not yet lifted.

- **Work collaboratively to strengthen education and research linkages as a way to spur innovation.**

  There are enormous economic and societal benefits to be gained from collaboration between universities and the private sector. Ideally, governments should boost funding for R&D, but even if that is not possible, they can benefit by reducing legal and institutional barriers to such cooperation. Both Europe and Latin America can benefit from the United States' example by better linking their university systems to the productive economy. Generous funding for public university research programs, combined with patent laws that incentivize professors to commercialize their findings, has fueled a powerful engine of innovation in the United States.

  Governments and universities in the Americas and Europe should also encourage international collaboration between researchers and expand existing educational exchange programs in order to create feedback loops of knowledge and ideas that will spur development. Countries with strong research pedigrees should emphasize programs

[19] UNESCO-UNEVOC TVETipedia, "Dual Education System," December 2009, http://www.unevoc.unesco.org/tvetipedia.0.html?&tx_drwiki_pi1[keyword]=dual%20system.

[20] Moreno, *The Decade of Latin America and the Caribbean: A Real Opportunity*, p. 39.

that incentivize cross-border research collaboration. Governments can reinforce this effort by facilitating educational exchange visas for those working in technical and research fields.

As for student exchanges, Brazil's President Rousseff recently launched the "Science Without Borders" program that will send 100,000 Brazilian students abroad to study STEM disciplines; half of those will go to the United States. The Obama administration has developed the "100,000 Strong in the Americas" program, aimed at bringing that number of students from Latin America to the United States, and vice versa, by 2020. The European Union, for its part, has been successful with its ERASMUS and now Erasmus Mundus student exchange programs. These programs will pay great dividends in developing both the technical skills and the cross-border relationships needed for successful innovation. They should be expanded with the strong support of the business community. It is essential, however, that these programs be genuinely two-way streets. The US-European experience with the Fulbright and Bosch fellowships, for example, has demonstrated that the benefits are multiplied when students and young professionals travel in both directions.

- **Compare best practices in technical and vocational education, and in online and non-traditional learning.**

Europe is a leader in providing high-value vocational educational tracks to its students. The European Union, for instance, has created the European Center for the Development of Vocational Training to support the expansion of technical and educational vocation tracks to more European youth. Half of the European Union's population already acquires their first job-related skills through technical training programs. US and Latin American governments can learn much that will be useful in updating school structures and curricula to incorporate technical tracks. The Americas and Europe can also learn from each other about effective ways of introducing information and communications technology into the classroom. This will allow the further expansion of access while inculcating skills that directly relate to the productive economy. Paraguay, for instance, has decided to tackle this problem head-on by providing greater access to the internet for its new generation of students. The NGO Paraguay Educa has given out more than 9,000 laptops to students in ten elementary and middle schools, in cooperation with the One Laptop per Child Foundation and the education ministry. Such access can also facilitate greater international linkages and encourage collaboration between students and researchers in different regions and countries.

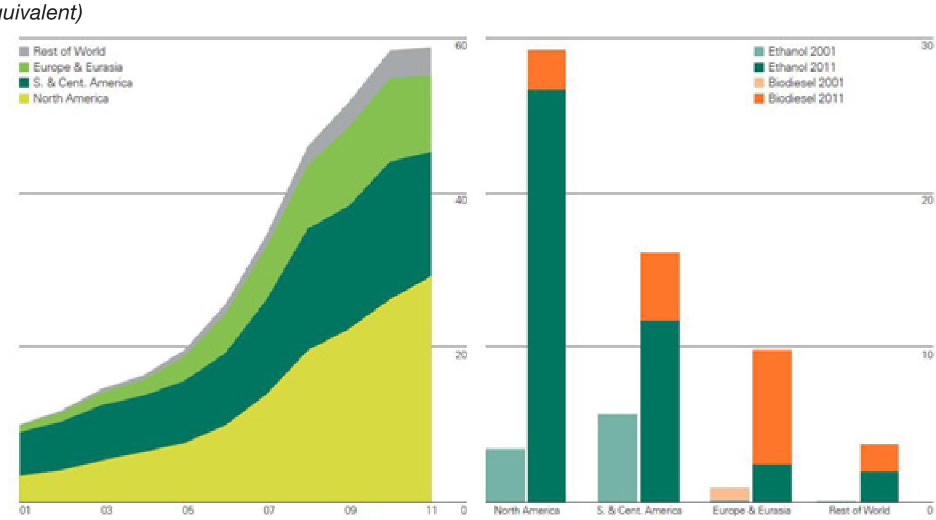
Managing Energy Riches and Natural Resources

Global energy supplies and markets are facing a great transformation—a transformation that could provide a significant opportunity for the Americas and Europe. While consumption is likely to grow most significantly in China and India, the Americas are expected to become even more significant global energy suppliers. Canada is already a major exporter of oil and natural gas, primarily to the United States. The United States is in the midst of developing unconventional oil and gas resources, and is expected to become an energy exporter around 2030 and perhaps eclipsing the Middle East as soon as 2020.[21] Latin America is already a major producer of energy, including oil and gas, hydro and thermal energy, as well as biofuels (see Figure 5). Central and South America produced 27.4 percent of world biofuels in 2011, compared to North America's share at 49.6 percent and Europe's share at 16.7 percent. Brazil alone provided 22.4 percent of these biofuels, second only to the United States.[22] Latin America is currently second to Canada as a source of energy for the United States, providing more energy supplies than the Gulf oil states. Recent discoveries of additional reserves off the coast of Brazil, in Argentina's Patagonia, and on Mexico's northern border point to the possibility that Latin America could become a major global energy supplier over the next few decades. Even in the European Union, which is overwhelmingly an energy consumer, the discovery of shale gas reserves has prompted visions of greatly reduced dependence on Russia for energy. With the United States moving from importer to exporter and more liquefied natural gas available through terminals, Europe could find itself in a game-changing situation, thanks to much greater diversity of supply.

Figure 5:

World Biofuels Production

(Million tonnes oil equivalent)



Source: BP Statistical Review of World Energy, June 2012.

[21] International Energy Agency (IEA), *World Energy Outlook 2012* (Paris: IEA, 2012).

[22] BP, BP *Statistical Review of World Energy June 2012* (London: BP, 2012), p. 39.

The implications of such a shift in global energy supplies for a trilateral partnership of North and South America and Europe are tremendous. Latin American energy supplies are likely to continue to be important in some US markets, but as demand from the United States declines, Latin America could become a much bigger supplier for Europe, as well as China and others in the global marketplace. This shift in energy supplies concerns more than energy markets and the balance between supply and demand. Energy is a strategic commodity that has defined relations between countries and regions, made certain sea routes of key importance and, when scarce, demonstrated its ability to cause domestic pain and even unrest. The prospect of the Americas and Europe having a long-term stable energy supply and providing a greater portion of the global supply helps ensure their own competitive position, both economically and strategically.

Energy supplies are not the only natural resources that make this trilateral partnership relevant. Latin America's mineral and metal wealth is as important now as it was in the sixteenth century, especially as the needs of the global electronics industry continue to grow. Forty percent of the world's copper and silver deposits belong to Latin America.[23] Chile alone holds 50 percent of the world's copper deposits.[24] Together, Mexico and Peru supply about 34 percent of the world's silver, and Peru and Bolivia produce 20 percent of the world's tin—all of which are in greater demand than ever.[25,26] Peru and Bolivia also have notable lithium resources. Meanwhile, the European Union has to import more than 50 percent of its metals for basic commodities, and over 80 percent of US strategic minerals come from overseas suppliers.[27,28] The United States is facing an unhealthy dependence on strategic mineral imports, such as manganese—of which Brazil is the world's sixth-largest producer.[29]

In recent years, the extractive industries in Latin America have seen investments by companies from China, Canada, the United Kingdom, and the United States, among others. Yet building a strategic resource partnership will be an immense challenge. Moving proven reserves of oil and gas or minerals to the global market can be a difficult process. Latin America may have increased its share of proven oil reserves from 7.8 percent in 2001 to 19.7 percent in 2011 (see Figure 6), and Venezuela may have the largest share of oil reserves in the world, but that only demonstrates the potential worth of that resource, not how much will reach the market.[30]

Turning this opportunity into reality will require all three partners to overcome several key challenges:

- Reconciling the interests of diverse domestic constituencies;

Figure 6:

Distribution of Proved Reserves in 1991, 2001, and 2011

(Percentage)

Source: BP Statistical Review of World Energy, June 2012.

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23 Moreno, *The Decade of Latin America and the Caribbean: A Real Opportunity*, p. 31.

24 Manuel Glave, *Mining in Latin America: Attracting Quantity and Quality in FDI* (Lima: ELLA Practical Action Consulting, 2012), p. 2.

25 British Geological Survey, "Gold, silver, and bronze: where do these metals come from?," http://www.bgs.ac.uk/research/highlights/2012/goldSilverBronze.html.

26 US Department of the Interior and US Geological Survey, *2010 Minerals Yearbook* (Washington, DC: USGS, 2012), pp. 3.1 and 77.1.

27 *Metal Bulletin*, "EU is becoming overly dependent on metal imports—Eurometaux," http://www.metalbulletin.com/Article/3103722/EU-is-becoming-overly-dependent-on-metal-importsEurometaux.html.

28 Kent H. Butts, Brent Bankus, and Adam Norris, "Strategic Minerals: Is China's Consumption a Threat to United States Security?," *Center for Strategic Leadership, US Army War College*, vol. 7-11, July 2011, p. 1.

28 T.J. Brown, A.S. Walters, N.E. Idoine, R.A. Shaw, C.E. Wrighton, and T. Bide, *World Mineral Production: 2006-2010* (Nottingham: British Geological Survey, 2012), p.46.

30 BP, *BP Statistical Review of World Energy June 2012*, p. 6.

- Fostering the development of a secure and adequate infrastructure; and
- Providing a suitable and predictable regulatory environment.

This cannot be done by governments alone; the private sector, from small mining companies to global energy companies, will play a determining role in whether national energy ambitions are actually achieved. Political leaders would be wise to remember that, in most cases, they can provide the context in which companies operate, but cannot make corporate decisions.

The exception of course is when state companies are involved. Such national oil and natural resource companies have a long pedigree in Latin America and Europe. These firms operate with varying degrees of effectiveness. Some, like Brazil's Petrobras and Norway's Statoil, have benefited from embracing a hybrid mix of public and private, while others, like Venezuela's PDVSA, suffer from politicization and chronic mismanagement. Fluctuating international prices for natural resources can wreak havoc on national budgets that excessively depend on state company revenues, leading to overspending in boom years and massive deficits during slumps. Further modernization of the management and investments of such national oil companies—including greater private partnerships in many cases—will be essential in ensuring a productive and competitive energy sector in the Americas and Europe.

Perhaps no other economic sector is as likely to be as highly politicized as the energy and extractive resource sectors. They often provide an easy revenue stream for the state (and sometimes for state officials as well), leading to national dependency on erratic natural resource revenues and sometimes to rampant corruption both in industry and the government. This sector often becomes a lightning rod for nationalist sentiment, with accusations that global companies are selling off a nation's patrimony or getting rich while the local populations remain impoverished or even worse.

In Latin America today, indigenous rights groups contest the legitimacy of exploration and development that affects their communities, and battles erupt over claims related to compensation for displacement and environmental impact—for instance, the ongoing court case related to Texaco's oil exploration in Ecuador, which has now been inherited by Chevron; and the violent protests that have erupted in Peru over concerns that a new gold mine will disrupt local water supplies. Populist governments treat foreign investors as political targets or easy revenue streams, and a trend of nationalizations has swept across Venezuela, Bolivia, and now Argentina.

Mexico is representative of both the opportunity as well as the potential obstacles: its wind industry is growing quickly but facing political tension in indigenous communities, and fully exploiting its substantial hydrocarbon resources will require modernizing the state oil company, PEMEX, to convert it into a profitable corporation and increase the participation of private investors in multiple upstream ventures. While some countries in Latin America have taken steps to strengthen private sector involvement and competition, others, such as Venezuela and Argentina, are moving in the wrong direction. Similar obstacles arise in the case of mineral resources. Bolivia has the world's largest proven reserves of lithium, but given the government's attitude toward foreign investors and its foot-dragging in developing the sector, it remains far from clear that this extremely lucrative potential will be effectively tapped.

Extractive industries often face domestic controversy and opposition in Europe and the United States as well. Projects such as the US Keystone pipeline face legal and political opposition from environmental advocacy organizations. In Europe, some countries such as France and Bulgaria forbid hydraulic fracturing while others such as the United Kingdom permit it, and attitudes across the continent differ greatly on the balance between environmental protection and energy production.

Building a domestic consensus will be difficult at the best of times but impossible without strong rule of law and fair, transparent regulation. This is critical to ensuring appropriate environmental and safety standards in the natural resource sector, as well as the appropriate use of both investment funds and revenues. Improving and stabilizing the regulatory environment will increase the political legitimacy of sometimes contentious projects and help states avoid politicization and thus mismanagement of this crucial sector. Finally, a fair and transparent regulatory environment will be essential in attracting investment into the energy sector, from both domestic companies and international corporations.

A strong energy and resource partnership will also require the right infrastructure. In the United States, the Keystone pipeline will significantly change capabilities for transporting unconventional oil. In Europe, new infrastructure is needed to reduce the continent's reliance on Russian supplies flowing through the old East-West pipeline network. New liquefied natural gas (LNG) terminals are under construction, and the Nabucco pipeline may one day bring gas from the

Caucasus and farther into central and western Europe. Even reconstructing the pipeline network in Central Europe to handle reverses in flow can reduce dependence on Russian supplies. In some Latin American countries, maintaining a secure and productive energy infrastructure has been a challenge, especially if a lack of private investment hinders the necessary ongoing renovation.

Overcoming these obstacles will not be easy. The private and public sectors must work together to expand the energy mix and ensure the availability and security of the required infrastructure. This can include increasing public funding for energy R&D, embarking on public-private partnerships to spur energy projects, and proactive government investment in the infrastructure—port facilities, pipelines, modern grids—that drives the competitiveness of the energy sector. There should also be efforts to enhance energy efficiency. Transparent and predictable regulatory frameworks must be created to assure investors of the stability of the rules of the game. A key priority will be continuing to develop domestic technical expertise and educating the skilled workforce that today's highly technical energy sector needs.

Governments and companies must also foster greater cooperation across borders. The European Union has embarked on the long and complicated road to creating a "single energy market," but today the continent is still divided, with different national energy companies and nationally driven energy priorities and patterns of supply and demand. The United States and Canada have long had strong cross-border cooperation on energy, and this should continue to grow in Latin America, with governments working to improve regional connectivity and energy integration. Colombia leads one effort, together with the United States, to create an integrated electrical grid for the hemisphere by 2022.

The transatlantic partners all have significant opportunities to expand their energy profiles, better manage their natural resources, and develop the integrated infrastructure that will allow for greater natural resource coordination and cooperation. Unconventional oil and gas have the potential to reshape the energy profile of the United States, while also boosting the competitiveness of its domestic manufacturing sector. The reach of offshore drilling has also expanded, although political and environmental concerns still linger. Europe is beginning the process of integrating its energy market, while also facing the welcome prospect of more ample and diverse supplies. In Latin America, massive new oil discoveries and the development of new sources such as shale gas and ethanol, as well as renewables, carry the promise of a future fueled by cheap, accessible energy, as well as increased export revenue.

A stronger resource partnership between the United States, Canada, Europe, and Latin America could give all their economies a much-needed boost. Unnecessarily high energy prices—often driven by inefficient monopolies, chronic underinvestment, underdevelopment of resources, and poor distribution infrastructure—drive up the cost of doing business and slow growth potential across all economic sectors. Such a resource partnership would also provide a strategic boost for a new transatlantic community as it seeks to remain competitive in an evolving global economy. As first steps toward achieving that partnership, the Americas and Europe should:

- **Launch a comprehensive trilateral energy dialogue.**

  The United States, European Union, and Latin America should initiate a trilateral energy dialogue in the coming year to address the shifting global energy landscape and to share best practices across the broad field of energy policy. Modeled on the Group of Eight (G8) or G20, but focused on energy, these gatherings would provide a forum for strategic discussions as well as establishing initiatives and standards that all could uphold. Currently, the Energy and Climate Partnership of the Americas (ECPA) meets annually with broad participation from governments, inter-American organizations, private industry, and civil society. They both lead and participate in initiatives that reflect their respective priorities. This forum could be expanded to include Europe, especially following Europe's interest in developing regional environmental and energy ties through the EU-CELAC meeting in January 2013. Beyond an annual meeting—perhaps held initially at the ministerial level—working groups could meet on specific issues, ranging from energy efficiency to use of biofuels, or management of unconventional gas resources. Because of the crucial role of the private sector in the energy sector, business representatives should continue to participate in both the ECPA and EU-CELAC.

  A trilateral energy forum should provide ample opportunity for discussion of the changing global energy landscape and the continuing challenges and opportunities it presents for the Americas and Europe, both economically and strategically. What will be the impact of China's decision to seek greater energy self sufficiency? What will be the impact of greater flexibility in global energy supplies, as well as much greater availability? This forum may also address the key global issue of resources, and be an appropriate launching pad for a trilateral initiative on water and agriculture, for example, or an initiative aimed at ensuring availability of rare minerals. But the forum should also seek to develop practical elements of energy cooperation between the three regions along the following lines:

- **Foster best practices and greater trilateral cooperation in strengthening the regulatory framework for natural resource projects.**

Unpredictability in the regulatory frameworks governing the natural resource sector leads to underinvestment, inefficiency, and ultimately lower growth. Investors must be confident that the rules of the game won't be arbitrarily changed. The United States and the European Union must continue to refine their regulatory environments, but they can also assist Latin America in identifying best practices regarding state oversight, environmental and safety regulations, compensation, and tax structure in this sector. Although Latin American countries are not members of the International Energy Agency (IEA), the standards of that organization may provide some useful guidance. Reforms that ensure the transparency, predictability, and fairness of the rules of the game and inject competition will lead to increased development and investment—which is especially important in a sector that requires massive capital investment and specialized technical knowledge. Moreover, much of the opposition to natural resource development in Latin America flows from a concern about proper safety and compensation guidelines and their enforcement. Strengthening state oversight and working with affected communities to develop mutually acceptable compensation can help defuse much of the unproductive political conflict that delays or even stops entire projects.

Once they agree on broad areas of best practices in regulation, they should explore the advantages of compatible, even harmonized, regulatory frameworks. Given the predilection of energy companies for predictable environments, such compatibility would make the transatlantic market even more attractive and may lower transaction costs as energy resources move between the Americas and Europe.

- **Identify potential collaborative R&D projects aimed at developing new technologies and energy sources.**

Despite budget strains, there remains a need for strong public financing of exploratory research into potential energy technologies and sources. In 2012, the United States spent 2.68 percent of its GDP on total R&D, and Europe 1.88 percent. Out of the top R&D spenders in Latin America, Brazil was closest to matching those levels, at 1.25 percent of GDP, but the next in line, Argentina and Mexico, spent .61 percent and .39 percent, respectively.[31] Today, governments must be both energetic and strategic in seeking out potential investments, but it is good to remember that the technologies behind shale gas, for instance, developed out of a combination of direct public investment and tax incentives. One way of leveraging R&D is through greater cross-border cooperation. Technical and scientific expertise is not constrained by national boundaries, and there is much that US, European, Canadian, and Latin American experts can learn by working together. The trilateral energy forum could identify a few keystone projects that the governments would support through their existing R&D budgets. Such an effort would not only spur cooperation in the scientific and technical communities, but eventually may lead to joint development of new technologies.

- **Identify potential cross-border infrastructure projects and undertake their development on a collaborative basis.**

In Latin America especially, a dearth of regional energy infrastructure constrains the effective exploitation and movement of energy resources, squeezing supply and raising prices. Both the United States and the European Union, whether through lower prices or decreased reliance on less-stable regions of the world, stand to benefit from such regional integration in terms of energy resources and markets. They should work with Latin American governments to develop strong energy and transportation links across national borders and work to engage both multilateral organizations and the private sector in their implementation.

[31] Battelle, "2013 Global R&D Funding Forecast," *R&D Magazine*, December 2012, p. 5.

- **Examine best practices in long-term management of energy revenues, including creation of sovereign wealth funds.**

Latin American countries with booming natural resource sectors can learn from the examples of Chile and Norway by creating long-term funds for their revenue. Too often, the windfalls from natural resource development are spent in a discretionary manner, and often for politicized reasons, rather than based on a long-term national investment strategy. By using a share of the profits from energy projects to create national social investment funds, governments can build consensus for natural resource development while simultaneously meeting other public policy goals. Both Norway's Statoil Oil Fund and Chile's successful experience directing a portion of its copper profits toward such a fund can serve as models.

Tackling Transnational Crime and Boosting Public Security

For too long, security issues have dominated the media in both Latin America and the United States. Although much of the criminal activity related to the "war on drugs" takes place within Latin America's borders, the drug trade is a transatlantic, even global, phenomenon, with many elements originating outside of Latin America. Therefore, any solution must be transatlantic in nature. An initial step toward promoting real and broader partnership requires enlarging the narrow "war on drugs" framework to address citizen security across the board: rule of law, capacity-building, lessons learned, and community engagement.

The dynamics of the transnational narcotics trade are complex, but at the most basic level, it relies on strong demand in the United States and Europe paired with weak institutions and law enforcement frameworks in many Latin American countries that allow for production and transshipment. It also relies on an international financial system—primarily in New York and London but also Miami, Panama, and the tax shelters of the Caribbean—whose opacity and lax oversight allows for the laundering of the proceeds. When faced with the human challenges of the region—persistent inequality, poor education, and lack of opportunity—many Latin Americans are drawn into the trade, or otherwise enable what has become a major economic sector. In Mexico, for example, the value of the drug trade was estimated to be 3-4 percent of the country's GDP in 2011, potentially making it a $30 billion industry and employing 500,000 people.[32]

Yet the nature of the problem is changing and so the response must also change. First, the neat dichotomy between Latin American suppliers and US- and EU-based consumers is increasingly breaking down. Demand is on the rise within Latin America, not least from a crack epidemic that has hit Brazilian cities. Meanwhile, meth labs churn out production in the American midwest, and marijuana growers in Colorado, California, and Washington state produce an ever larger chunk of that trade. Europe is also a significant producer of synthetic drugs. Second, it is increasingly clear that the producers, distributors, and sellers are not always coherent entities, but rather complex and ever-shifting networks that shade into other areas of criminal activity such as gun running, human trafficking, kidnapping, and extortion.

As for the policy response, there is increasing recognition of the futility of overemphasizing the supply-side while neglecting policies to combat demand—whether in Latin America, the United States, Europe, or Afghanistan. With demand high, suppliers will find ways to move operations—the so-called "balloon effect" that has seen transit routes return to the Caribbean and expand in Central America in the wake of increased law enforcement efforts in Mexico. Distributors are also highly skilled in the use of money and violence to alternately corrupt and bully authorities—and this happens in the United States and Europe, as well as in Mexico. There have been efforts to better target demand, such as the 2010 US-Mexico Bi-National Drug Demand Reduction Policy Meeting, which shared advances in understanding and treating drug addiction, improving substance abuse prevention, treatment and recovery support services, and breaking the cycle of drugs and crime. But especially given the rising rates of marijuana consumption in Latin America, these efforts must be expanded and intensified.

As the effort to stem supply has escalated, it has contributed to a militarization of the drug war, as national armies or special operations forces increasingly have been relied upon to fight criminal organizations. This raises important questions regarding the role of military forces in domestic policing and the relationship between national, regional,

[32] Council on Foreign Relations, "Mexico's Drug War," January 11, 2013, http://www.cfr.org/mexico/mexicos-drug-war/p13689.

and municipal government institutions. In the United States, state-level drug liberalization efforts combined with a stated federal commitment to the status quo has created a tense incoherence, leading to confusion on the part of local law enforcement and inconsistencies with national drug laws. At the same time, the mass incarceration associated with the drug war is swamping the prison system—at 760 inmates per 100,000 citizens, the United States has by far the world's highest incarceration rates. Forty-eight percent of all federal inmates are imprisoned on drug offenses, many for possession only.[33] Many of these dynamics are mirrored in Latin America, where prisons and judicial institutions are under strain.

A coherent transatlantic anti-narcotics policy must recognize that among the most devastating casualties of the drug trade are democratic institutions and civil societies. Policies that escalate the violent aspects of the trade place greater pressure on institutions such as local courts, prison systems, and police forces. While the United States and Latin America target suppliers, they must simultaneously work to build up institutions that support rule of law and support efforts to reinforce civil society. Organized crime can place tremendous pressure on local institutions, whose representatives can be faced with a choice between abetting the criminals or suffering retribution. The transatlantic partners must work in coordination to strengthen these institutions and to find ways to fight trafficking while reducing violence. The public understandably places a priority on reducing the crime and violence in their daily lives. In order to maintain political consensus on a way forward, drug war policies must find some way to deliver on this critical quality-of-life issue.

In the United States, the recent approval of state-level referendums decriminalizing marijuana may indicate a shifting landscape. While this type of flexibility has historically been a non-starter in the United States, it has been embraced by several European and Latin American countries, such as Portugal and Uruguay, which, depending on their success, could serve as models to be more broadly scaled up.[34] Early evidence suggests that a focus on treatment and prevention programs, paired with limited decriminalization, can allow state resources to more effectively focus on larger operators and relieve stress on criminal justice systems.

Deeper cooperation is required in the realm of interdiction as well. The United States has worked closely with Mexico, Colombia, and partners in Central America in the area of military and law enforcement assistance. There is also a need to improve intelligence sharing and cooperation in anti-trafficking operations. For its part, the United States must work domestically as well as with its partners in Latin America to stanch the flow of weapons into the region, including assault weapons (see Figure 7). There is also an opportunity to share technology, including social media and software that can be effective in identifying, tracking, and monitoring illegal groups. And financial institutions in all three regions must take their anti-money laundering mechanisms much more seriously, as the recent spate of scandals at major US and European banks has proven.

Figure 7:

Number of Firearms Seized in Mexico and Traced from 2004-2010 that Originated in the United States

(Note: FY=Fiscal Year; CY=Calendar Year)

Sources: Government Accountability Office Report, *Firearms Trafficking: U.S. Efforts to Combat Arms Trafficking to Mexico Face Planning and Coordination Challenges* and Letter from ATF Acting Director Kenneth Melson to Senator Dianne Feinstein on June 9, 2011.

[33] E. Ann Carson and William J. Sabol, "Prisoners in 2011," *US Department of Justice*, NCJ 239808, December 2012, p. 1.

[34] See also the report of the Latin American Commission on Drugs and Democracy, *Drugs and Democracy: Toward a Paradigm Shift*, 2009, http://www.drogasedemocracia.org/Arquivos/declaracao_ingles_site.pdf, which advocated a reorientation of US policies to treat drug use as a public health program rather than a criminal one, and called for decriminalizing possession of cannabis for personal use.

Above all, the transatlantic partners must develop their strategies with the understanding that the drug problem operates on many different levels. It stretches across the globe, from West Africa to Vancouver, and links sprawling networks of smugglers who seek profit with terrorists who seek to use that profit for even more nefarious ends. A key component of the transatlantic security challenge is to improve counterterrorism coordination. That means greater cooperation between police and military on an operational level, and particularly between intelligence agencies. This kind of information sharing will require the development of deeper trust but will pay dividends in much more complete and actionable information on terrorist and criminal networks.

An issue that intersects with the drug war, but also expands beyond it, is that of cybersecurity. President Obama recently announced the creation of a new cybersecurity framework for the United States, and the European Union is currently in the middle of reforming its privacy statute. All three regions must address how to make their networks more secure without sacrificing individual privacy or the creative independence that has driven the innovation of the Internet. In Latin America, Internet use is growing rapidly, with more than 40 percent of the population now online, and the region is a global leader in mobile phone use, including smart phones.[35] The increase in personal financial information entrusted to the cloud, as well as the benefits that criminal, business, and intelligence actors draw from this expansion means that cybersecurity will only increase in importance.

But apart from its global impact and its intersection with emerging security challenges, the drug issue is just as much an issue of day-to-day citizen security and the development of democratic institutions. Addressing both of these dynamics simultaneously will require innovative policy approaches, trilateral coordination, and committed follow-through. With that ambition in mind, the US, European, and Latin American governments should:

- **Refocus on demand and prioritize law enforcement efforts.**

One of the most promising ways the United States and the European Union can better assist Latin America in its struggle against the international narcotics trade is by expanding efforts to prevent, treat, and reduce the harm associated with drug use, while also reprioritizing enforcement efforts. Despite a decades-long, aggressive assault on the narcotics supply chain, demand remains high in Europe and the United States, while consumption is growing in Latin America as well. There are frameworks in place targeting demand: in the European Union, member states have developed the European Minimum Quality Standards for drug prevention, treatment, and harm reduction, and the US State Department, through its International Drug Demand Reduction Program, works with partner governments, NGOs, and international organizations to develop and implement demand reduction programs. These efforts should be better funded and more broadly expanded, especially as demand grows in Latin America. The Inter-American Drug Abuse Control Commission of the OAS might be strengthened, as it does provide an institutional link across the Americas. There will also be a need to reach out to other governments and organizations involved in combating drug trafficking, including in Africa.

At the same time, law enforcement and interdiction capacity is finite, and an intelligent, targeted approach for mitigating the worst effects of the drug trade should focus on its most harmful aspects. In the United States and Europe, that means that policymakers should emphasize cocaine in particular, as it has both the highest profit margins for traffickers and high addiction rates. In addition, enforcement should emphasize large-scale suppliers and traffickers. An indiscriminate approach that treats small-scale, nonviolent consumers the same as violent smugglers diverts precious public resources and overburdens criminal justice institutions. In Latin America, scarce law enforcement resources should not mean that the basic security of citizens is neglected as police go after cartels; citizen security must be paramount. Finally, there may be some lessons to be learned from experiments using technology and social media to alert citizens to dangerous situations and encourage public activism.

- **Take steps to limit the cross-border flow of deadly assault weapons.**

Assault weapons are endemic in the United States, with the latest mass killings only dramatizing a scourge that claims victims regularly. These weapons not only spawn violence on America's streets, but also find their way wholesale to Latin America where they are turned on law enforcement officials in Mexico and elsewhere. Nor are such weapons solely of US

[35] Americas Society/Council of the Americas, "Explainer: Broadband Internet Access in Latin America," February 13, 2013, http://www.as-coa.org/articles/explainer-broadband-internet-access-latin-america.

origination: the Brazilian firearms company Taurus is one of the largest producers and exporters of small arms in the world.

Since it expired in 2004, the US Federal Assault Weapon Ban has been a political lightning rod. But given that the easy flow of these weapons over its southern border is providing the tools for an intensification of the violence, the United States should take what steps it can to limit that flow. In the wake of the Newtown shootings, Obama has proposed a series of measures, both legislative and executive actions, which would restrict ownership of assault weapons and ease the collection of information on gun crimes. While addressing this challenge within the United States, the Obama administration must also focus on the international implications of the US gun market, and pursue stronger efforts to limit cross-border transfers, especially of assault weapons. The new Arms Trade Treaty, approved by the UN General Assembly in April 2013, may encourage governments of the Americas and Europe to construct clearer restraints on such transfers over the long term.

- **Improve coordination on anti-money laundering.**

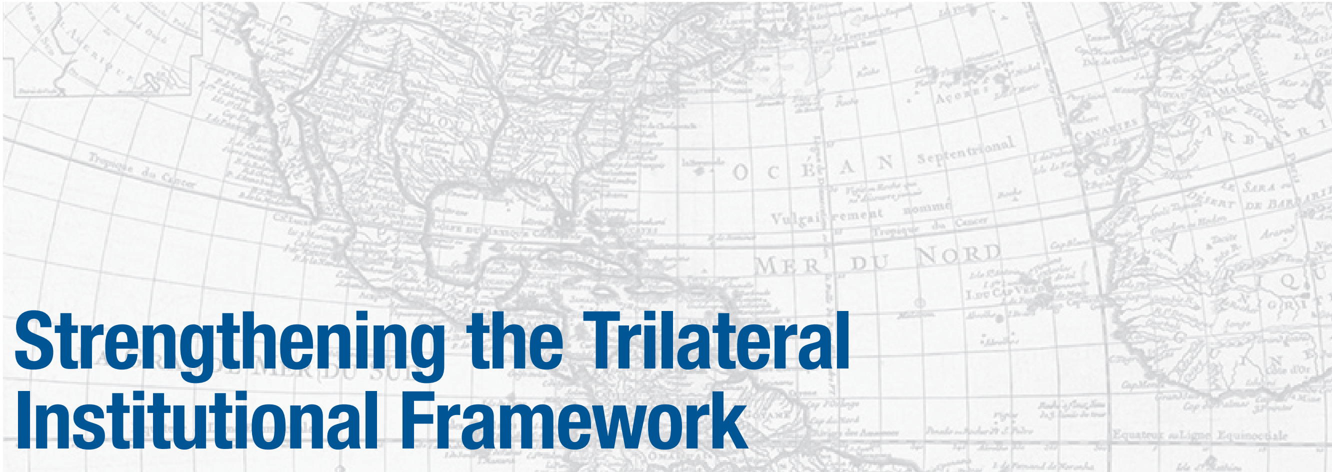
Money laundering is the mechanism that facilitates the entire drug trade, as trafficking networks desperately need to convert illicitly earned cash into liquid, ostensibly legitimate electronic funds. Recent cases against major US and European banks, including the US government's investigation into HSBC's involvement in money laundering schemes in Mexico, demonstrate that rot exists even in the most respected institutions. And while Latin American and European banking institutions are increasingly required to meet tough US requirements on AML policies, such as strict Know Your Customer guidelines, these have raised concerns about both effective implementation and privacy rights. Improvements must be made, including having the casas de cambio accept regulation of their activities. But the United States in particular must recognize that the system will be stronger if regulators work in concert to build institutional capacity for the kind of oversight that will keep traffickers from using the international financial system with impunity. Simply issuing strict regulations is ultimately ineffective when combined with a lack of institutional transparency and a high level of (often politicized) discretion in enforcement. Governments in the Americas and Europe should cooperate in reviewing the implementation of these regulations, and a comparative examination of the approaches by different countries could be very useful.

- **Deepen trilateral cooperation in building effective institutions to support rule of law.**

Tackling the drug trade and building public security requires strong government capabilities, including institutions that can provide both security and support rule of law. That such institutions flourish is not only in the interest of Latin America, but the United States and the European Union as well. Direct involvement from the United States and the European Union—in coordination with their Latin American partners—in building such institutions can have a dramatic impact. The Merida Initiative in Mexico is one example of US funds and expertise being applied specifically to strengthening the professionalism of the police forces and the capacity of local judicial systems. Although the effectiveness of the Merida model is not yet clear, it builds on the experience of Plan Colombia, in which the United States provided tangible support to that government. European involvement in such efforts has been less consequential. The European Union does, however, have a growing track record in other regions in linking its technical and financial assistance for judicial reform to democratic practices, and these should be examined vis-à-vis Latin America.[36]

Closer relationships between military and intelligence institutions are critical as well. In the fight against drug production and trafficking, knowledge is power. Whether it is radar systems to track single propeller planes in the Caribbean, wiretaps and Internet records to chart trafficker communications, or human intelligence to penetrate criminal networks, the key is to combine information from a plethora of sources and agencies into coherent, actionable intelligence. Because these criminal networks span countries and cross borders, this effort will require closer coordination between agencies and between the various national intelligence services. There is justifiable reluctance to be too open with intelligence practices, but closer military and law enforcement relationships will contribute to building that trust.

[36] See "A Partnership for Democracy and Shared Prosperity with the Southern Mediterranean," Joint Communication to the European Parliament, the Council, et al., by the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy, March 8, 2011 COM(2011)200: http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/pdf/20110308_en.pdf.



Strengthening the Trilateral Institutional Framework

If the postwar experience of the traditional, US-European transatlantic relationship provides any lessons, it is that strong international partnerships require not only a congruence of interests and community of values, but also a set of key projects and an institutional framework.

That framework is essential if a partnership is to move from an *ad hoc*, occasional arrangement, to one in which the partners routinely consult and take the interests of the others into account. The US-European space is thick with institutions dealing with issues ranging from collective security and human rights to trade relations and regulatory policy. There are regular summits and a multitude of ministerial meetings addressing everything from food safety and financial services to counterterrorism intelligence and cybersecurity.

Compared with the depth of institutions that defines the US-Europe partnership, neither the US nor European relationship with Latin America is as robust. In both cases, many elements of the relationships still exist on a country-to-country basis, rather than with any regional strategy in mind. Certainly, the United States more often reaches out to individual countries rather than the Organization of American States (OAS). And in Europe, the main leaders in building and maintaining ties with Latin America have been Portugal and Spain. While this is understandable, it is time for Latin America to have stronger ties with a broader range of Europeans, including the EU institutions.

As for regional institutions, certainly the North Atlantic patterns cannot simply be repeated; we do not suggest establishing a trilateral NATO, for example. But the institutions that do exist, including the OAS and the EU-Latin American summit, are relatively weak. The United States has never given the OAS the priority it has given to NATO or even the US-EU relationship, but neither have Latin American countries pushed to make this a truly effective organization. The exception is the Inter-American Commission on Human Rights, which has played a significant role throughout the region. The Summit of the Americas, convening leaders from across the Americas every few years since 1994, has been an important but incomplete dialogue, with generic statements on infrastructure, poverty, disaster management, communications technologies, and citizen security. As for European-Latin American frameworks, since 1991, the Latin American countries have met with Spain and Portugal in the Ibero-American Summit. The EU-LAC summit has been held biennially since 1999, and in 2013, the Caribbean countries joined for the first time, leading to a "relaunch" of the process. It is too early to tell if the expanded action plan, focusing on growth and sustainability, will lead to genuinely closer cooperation. However, the summit did include a "Business Summit" and "Academic Summit" as well as other related gatherings, bringing together a collection of important stakeholders.

Multilateral institutions play an important role in Latin America as well, especially in the realm of development finance, and can serve as jumping-off points to incorporate the region more fully into the transatlantic framework. The Inter-American Development Bank was founded in 1959 and is a leading source of development lending in the region. It is also unique in that while it is capitalized by forty-eight member countries, its twenty-six Latin American and Caribbean members hold majority ownership of the Bank's decision-making, allowing it to respond better to regional needs. Another example of a strong Latin American-led multilateral institution is the Andean Development Corporation (CAF), which is composed of eighteen shareholder countries—sixteen from Latin America and the Caribbean and two from Europe (Spain and Portugal). Today, it is one of the main sources of multilateral financing in the region, with annual lending of about $15 billion, representing more regional lending than the World Bank and Inter-American Development Bank combined.[37] These organizations can be a model for the involvement of the United States and European countries in institutions that are still directed by, and for, Latin Americans.

These institutions, including more broadly focused organizations such as the International Monetary Fund (IMF) and the World Bank, have been important forces for the development of public policy and the implementation of development funding. As organizations with clear agendas and means to support positive institutional development, they have set the benchmarks for improving the rule of law, property rights, judicial systems, and effective markets. They also serve as important high-level forums for regional leaders, as important policymakers from the United States, the European Union, and Latin America are seated on their boards and discuss policy at their meetings.

In recent years, Latin American connections have also generated a myriad of forums, summits, and institutions, some of which include important "South-South" ties. The third Summit of South American and Arab Countries was held in Peru last October. The trilateral IBSA Dialogue Forum, a coordinating mechanism between India, Brazil, and South Africa, has working groups on health and agriculture. It also held its first naval exercise in 2010. Without observing these new arrangements, the United States and Europe would be missing a vital part of the picture.

If the United States, Europe, and Latin America are to build a stronger strategic partnership, they must also build a stronger institutional framework. Institutions should not define partnerships or substitute for action, but they are an essential foundation, ensuring routine consultation and collaboration. To build this framework, the three partners should:

- **Support progress toward multilateral integration in Latin America.**

  Latin America is developing important multilateral frameworks. Being able to operate on a regional basis, with some shared perspective, will be invaluable both globally and when dealing with the North Atlantic powers. Mercosur has been the most notable experiment in regional integration. But while set up to be a common market, it has recently been stymied by disagreements among its members. Now new institutions are emerging. The Trans-Pacific Partnership (TPP), includes not only the United States but Pacific Rim countries as well, and reflects the attraction of Asia's dynamic economies. Initially agreed to in 2005 as the Trans-Pacific Strategic Economic Partnership, the TPP has expanded from a trade liberalization agreement between Chile, Singapore, Brunei, and New Zealand to ongoing negotiations that include the United States, Mexico, Australia, Peru, Vietnam, Malaysia, and Canada. The Pacific Alliance focuses on developing comprehensive intraregional Latin American relationships. Established in 2011, it is an agreement with an eye toward Asia, but consisting solely of Latin American countries (Mexico, Colombia, Peru, and Chile form the primary members), and is an important opportunity to promote deeper institutional relationships between major Latin American countries.

  The United States and Europe should encourage these efforts, even when the focal point seems to be Asia. Europe brings real experience in regional integration to the table, and both the United States and the European Union will find a more unified Latin America a more stable partner. They must be careful, however, not to be exclusive, but rather encourage doors to remain open to those in Latin America who may be reluctant to join such efforts at first. In time, these efforts toward regional cooperation could provide stronger potential platforms for cooperative action between Latin America and its allies.

- **Expand Latin American participation in institutions of global governance.**

  Latin America's growing clout and maturity on the world stage means that it is time for it to play a greater role in the institutions that govern it. The G20 structure already recognizes this by including Brazil, Argentina, and Mexico. However, no Latin American countries are part of the G8. Mexico and Brazil were part of the G8+5 that predated the G20, and in 2012, Brazil's economy was larger than that of four G8 members and Mexico's surpassed one. Only Mexico and Chile currently belong to the OECD. The United States and Europe should support efforts to better integrate Latin American countries into the institutions of global governance. In particular, the United States and Europe should:

[37] *Financial Times*, "Multinational lending: Mutual aid works for Latin America," September 23, 2012, http://www.ft.com/intl/cms/s/0/05e0b6e0-017f-11e2-83bb-00144feabdc0.html.

- Push the OECD to begin membership negotiations with more Latin American countries. Several already participate in OECD activities, and it is time for them actually to join the club of industrial nations. Some may also wish to join the International Energy Agency, an OECD subsidiary;
- Support efforts to reform international financial institutions, including the IMF and World Bank, so that middle-income countries have more voting rights, and so that strong consideration is given to Latin American candidates to lead those organizations and others such as the WTO; and
- Consider supporting efforts to gain Latin America a permanent seat on the UN Security Council. Many countries, including Russia, the United Kingdom, and France, have supported the proposal to make Brazil a permanent member, but no concrete reforms have yet materialized in the Security Council. The United States has hinted at a more prominent role for Brazil but has not offered full support for Brazil's permanent membership. President Obama has voiced support for the inclusion of India due to its status as a global democratic power, and the same consideration should be given to Latin America as a growing, Western power center in itself.

■ **Initiate a trilateral EU-US-Latin America summit.**

Key to a strong strategic partnership with the United States, Europe, and Latin America will be building a trilateral institutional framework. The United States, European Union, and Latin America should initiate a summit process to herald a new era in relations and to begin discussions on steps to build a more strategic partnership. Bilateral institutions, such as the OAS and Summit of the Americas, should be strengthened, and the EU-CELAC summit process should also move forward. However, there is no substitute for bringing all the leaders together in one setting. It provides an opportunity for dialogue on key issues but also provides a stamp of credibility and seriousness for a reinvigorated relationship.

To prepare for such a summit, which should happen before the end of the Obama administration, the parties should begin with an expert task force, which will identify the issues to be discussed and areas where genuine progress might be made. Careful attention should be paid to choose priorities that are best addressed in a trilateral framework. These should include both regional efforts, but also topics on which a trilateral approach to a global issue could bring added value. To support this effort, each foreign ministry should identify a high-level official to shepherd this process. There might next be a ministerial level meeting to agree to these priorities and determine the agenda. Only with this type of detailed preparation would such a trilateral summit escape the fate of being another "talking shop." Once established, the summit can also serve to bring together other stakeholders, such as business leaders or civil society. The summit could also provide a focal point for other trilateral dialogues on energy and trade recommended by this report. These could be subsidiaries of the summit process, reporting to the leaders with significant recommendations. There are many other recommendations, in this report and elsewhere, that could provide the agenda for such a trilateral summit. Eventually, a consolidated summit—bringing together leaders first in the Summit of the Americas format, then a trilateral gathering, and then the EU-CELAC format over three days—might provide an enormous energy and sense of commitment among the partners.

Building institutions is slow, painstaking, but vital work, as is opening markets, strengthening people-to-people ties, constructing region-wide infrastructure, and creating partnerships to fight crime and insecurity. The United States, Europe, and Latin America will face many challenges and obstacles in building a truly trilateral partnership. The time to start is now.

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