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Chapter 2: Executive summary

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IISS CARTAGENA DIALOGUE

CONFERENCE PROCEEDINGS



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Juan Manuel Santos, President of Colombia

President Juan Manuel Santos opened the IISS Cartagena Dialogue: The Trans–Pacific Summit on 6 March 2015 with a keynote address. He described the integration of Colombia with the Asia–Pacific as ‘a dream, almost an obsession’ during the past two decades. The Dialogue – which brought together the four Pacific Alliance states of Colombia, Chile, Mexico and Peru, plus observer states from Latin America and Asia – represented a further step in Colombia’s trans–Pacific relationships, Santos said. The country’s GDP growth has averaged 5% annually in recent years, surpassing neighbouring countries. It attracts today more foreign investment than ever, thanks to the control of inflation and the reduction of poverty. Approximately two million people have been lifted out of poverty in the past four years, the president said, adding that the goal is to eradicate poverty entirely within a decade.

President Santos told delegates that the peace process with the FARC paved the way for more social and economic progress. It held out the promise of ending the oldest conflict in the western hemisphere, which had run for 50 years. He spoke candidly about the difficulties of striking a balance between peace and justice for victims in the talks with FARC being held in Havana, Cuba. Colombia’s goal, he said, is to achieve a level of justice that allows peace. On a positive note, he shared with the audience the experience of victims of the conflict who journeyed to Havana and returned home more willing to forgive than before.

Colombia entered the talks from a position of strength and increased security that was a result of the strengthening of the armed forces and the police, President Santos said. The security forces were able to achieve significant victories that debilitated FARC during the years prior to the Havana talks. Improved security has also been one of the pillars of Colombia’s economic and social progress, he added. These advances have been supported by integration with the global economy: Colombia now has preferential access to 1.5 billion consumers in the Americas, Europe and soon the Asia–Pacific. The Pacific Alliance, he said, is such a promising trade initiative because it seeks ‘deep integration’ between the four current member countries. The Alliance, he added, is the most dynamic platform for economy and trade in Latin America, pursuing the free circulation of goods, services, capital and people.

The president highlighted the deepening integration of the Pacific Alliance countries into Asian political and economic fora such as ASEAN and APEC. One of the challenges for Colombia is to diversify the range of its exports to Asia–Pacific countries. Santos said Colombia will exploit its agricultural potential to sell more food products to Asian countries, where populations and incomes are rising, stoking increased demand for food products. The IISS Cartagena Dialogue, the president concluded, reaffirms Colombia’s role as a point of contact between Asia and Latin America.



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(l-r) Juan Carlos Pinzón Bueno, Minister of National Defense, Colombia; Dr Chung Min Lee, Ambassador for National Security Affairs, Republic of Korea; Luis Alberto Moreno Mejia, President, Inter-American Development Bank; Dr Min Zhu, Deputy Managing Director, IMF; Senator Gabriela Cuevas Barron, Chair of the Mexican Senate's Foreign Affairs Committee

Shortly before President Santos gave the keynote address, Caracol Television organised a debate involving delegates and speakers at the Dialogue, chaired by News Director Juan Roberto Vargas and broadcast to 27 Latin American countries.

He began by asking panellists to assess the importance of the relationship between Latin America and Asia. Juan Carlos Pinzón Bueno, Minister of National Defense of Colombia, described Asia as a benchmark for the world economy and a centre of technological development; he noted that Latin America was smaller but that the Pacific Alliance nevertheless constituted a market of comparable size to Brazil or India, and thus was an attractive partner for Asia. Dr Chung Min Lee, Korea's Ambassador for National Security Affairs, agreed with that assessment, predicting that the Pacific Alliance would become a growth driver and core region within the Americas.

Luis Alberto Moreno Mejia, president of the Inter-American Development Bank, noted the increased trade flows: Asia's share in Latin American trade rose from 8% in 2000 to almost 25% in 2014, although the distribution varied widely with Mexico and Brazil dominating. A south-south dialogue could help Latin America close the gap with Asia on technology and education, he said, but also help Asia handle the transitions associated with urbanisation – a process that Latin America has largely completed. Dr Min Zhu, deputy director general of the IMF, also noted the rapid increase in trade flows and said that Latin America was already integrated in some Asian vertically integrated supply chains. The closeness of the economies was apparent in the high degree of correlation between Asian and Latin American stockmarkets, he added.

Senator Gabriela Cuevas Barron, chair of the Mexican Senate's Foreign Affairs Committee, noted the lack of pan-Pacific institutions to stimulate contacts between Latin America and Asia, aside from the Trans-Pacific Partnership (TPP) trade initiative. The Pacific Alliance, she added, has great potential as a market and an exporter of some important commodities such as silver and copper.

Mr Vargas then turned attention to the question of insecurity and how that affected business decisions. Senator Cuevas observed that, according to the UN, seven of the world's ten most dangerous countries are located in Latin America, and yet this had not proven to be a barrier to investment. Insecurity, even in the worst-afflicted states, was not uniform, she noted. Chung Min Lee suggested that perceptions of Asian investors sometimes failed to keep pace with improving realities in Colombia and Mexico, while also noting that Asia suffered from inter-state tensions that were largely absent in Latin America.

Minister Pinzón added that it was important to boost security in order for investors to feel comfortable – noting that economic development was vital to underpin the security gains made in Colombia in recent years. Touching on Dr Lee's comparison of security in Asia and Latin America, he said that the latter enjoyed considerable security at the inter-state level but low levels of security at the personal level.

Plenary 1: The Pacific Alliance Countries and Asia



(l-r) María Ángela Holguín Cuéllar, Minister of Foreign Affairs, Colombia; José Antonio Meade Kuribrena, Secretary of Foreign Affairs, Mexico; Claudio de la Puente Ribeyro, Vice Minister of Foreign Affairs, Peru; Edgardo Riveros, Vice Minister of Foreign Affairs, Chile

Opening the first plenary session, **María Ángela Holguín Cuéllar, Minister of Foreign Affairs, Colombia**, outlined the importance of the Pacific Alliance in supporting Colombia's development and integration in Asia. Colombia's partners share our vision, she said, but they have already built links to Asia through trade agreements and we have benefited from their experience and the ability to share diplomatic missions. The Pacific Alliance is focused on Asia because it believes the region is the lynchpin of the global economy in the 21st century, the minister remarked.

Within Latin America, the agenda for cooperation within the alliance includes migration, easing travel between the regions. Already these nations are reaping the benefits of easier freedom of movement, the minister remarked, and are continuing to work together despite changes of government in member-countries. In Asia, the Pacific Alliance has started a relationship with ASEAN – a grouping that, like the alliance, is a good example of open regionalism and ensuring stability and prosperity.

José Antonio Meade Kuribrena, Secretary of Foreign Affairs, Mexico, reflected on the failure of Latin America until recently to make a success of regional integration, despite commonalities of language, culture, values, history and aspirations. The Pacific Alliance, he suggested, marks a change for the better. It has been assisted by having two main objectives: to build a single, deeply integrated economic space; and to create a platform to promote the countries in the wider world and especially in Asia. A great deal of progress has been made on the first objective over the last three years, not only regarding trade but also visa and stockmarket integration, he said.

Secretary Meade said that the next step is to promote the Pacific Alliance countries in the Pacific region and to create opportunities for business-to-business contacts. To that end, they hope to hold an APEC-Pacific Alliance meeting on the margins of the Latin American Economic Forum in April.

The theme of the Pacific Alliance being a response to previous failed integration efforts was taken up by **Claudio de la Puente Ribeyro, Vice Minister of Foreign Affairs, Peru**. Broader integration projects have been stymied by ideological and developmental differences among states, he said, prompting Peru's then-president Alen Garcia to establish a vanguard for integration based on a core group of solid democracies with similar outlooks on economic and trade policy. The Pacific Alliance is the first integration venture based on common interests rather than geographical proximity, the vice minister said. It is open to other states in the region, so long as they share the alliance's values and standards.

Looking to Asia, the vice minister vowed to help and support Colombia's desire to join APEC. There is considerable Asian interest in the Pacific Alliance, he added, noting that there are 32 observer states, half of which are Asian. Speaking of Peru's own ties to Asia, he recalled that diplomatic relations with China and Japan were established in the 1870s and that today the country is home to the largest Chinese community in Latin America and the second-largest Japanese community. Today China is Peru's leading trade partner and a major investor too.

Addressing another aspect of the Pacific Alliance, **Edgardo Riveros, Vice Minister of Foreign Affairs, Chile**, observed that the world is now comprised of trade groupings, making integration a necessity in order to create efficient development and foreign-trade policies. The individual states of the Pacific Alliance have forged many bilateral Free-Trade Agreements (FTAs), he said, but acting individually is no longer sufficient. The Pacific Alliance stands out because of its desire to become a genuine regional platform. He affirmed Chile's commitment to far-reaching trade liberalisation and opening the trade in services and government procurement within the Alliance.

The Pacific Alliance's Asian focus can help with important domestic objectives, in particular the cause of reducing inequality within Latin America, the vice minister said. Asian expertise and experience in science, technology and innovation can help to narrow disparities of income and opportunity within the Pacific Alliance states.

The debate that followed the speeches touched on the question of whether the Pacific Alliance's Asian focus represented an effort to reduce economic reliance on China, and also on the difficulty of balancing close security ties with the US and growing trade ties with China – a dilemma that is common to some Asian and Latin American states. Dr Felipe Larraín Bascuñán, Chile's former Minister of Finance and Senior Adviser to the IISS, raised the question of the Alliance widening or deepening, and whether that necessitated institutional development. The two foreign ministers were emphatic in their response. Secretary Meade said the Pacific Alliance's limited bureaucracy and institutionalism has been hugely advantageous. Minister Holguín warned that the creation of a bureaucracy could deprive the alliance of dynamism and creativity. It is essential to not create a bureaucratic machine, she added.

Plenary 2: Asian Perspectives on the Pacific Alliance



(l-r) Cho Taeyul, Vice Minister of Foreign Affairs, Republic of Korea; Dr Min Zhu, Deputy Managing Director of the International Monetary Fund; Cesar Purisima, Secretary of Finance, Philippines; Toshiro Suzuki, Ambassador at Large for International Economic Issues, Japan

Dr Min Zhu, Deputy Managing Director of the International Monetary Fund, observed that Latin America's exports to Asia had risen substantially. Moreover, China and Japan were providing significant capital flows to Latin America and equity markets had become closely aligned. Asian economies were now moving from export-led policies towards the development of domestic economies, the expansion of the middle class and a strong financial sector. China's current spending on investment, at 44% of GDP, is unsustainable: a cut to 34% of GDP over several years would have significant adverse impacts on Latin American commodity markets. The challenge is to establish a 'new normal' in relations between Asia and Latin America, moving beyond the commodity cycle towards a more broad-based relationship involving increased consumerism, services and agriculture. This should involve not just the major corporations but also small and medium-sized enterprises (SMEs). Such an evolution would have profound social and cultural implications. It would be characterised by greater levels of technology transfer and increased investment in infrastructure and education, which would bring substantial benefits including reductions in income inequality.

Cho Taeyul, Vice Minister of Foreign Affairs, Republic of Korea, emphasised the importance for South Korea of the Pacific Alliance. Already Seoul is negotiating bilateral Free-Trade Agreements (FTAs) with the four Alliance states. Although Korea has a long-standing relationship of trust with Colombia, dating back to the Korean War, Seoul feels a sense of camaraderie with all four Pacific Alliance states based on a shared outlook. Latin America has been a laboratory for competing theories of economic development, he said, but it now appears that the open, free-trade model

theories of economic development, he said, but it now appears that the open, free-trade model espoused by the Pacific Alliance is carrying the day. Latin America as a whole faces a shortfall in infrastructure: the cost of remedying it is expected to rise to US\$120 billion by 2020, the vice minister stated. South Korean companies are well placed to work in this sphere, creating high-quality jobs and added value.

Cesar Purisima, Secretary of Finance, Philippines, observed that the trans-Pacific alliance was not a new idea. Some 450 years ago there had been a galleon trade between Acapulco and Manila involving bullion on one side and Chinese manufactured goods on the other. At that time, and for most of recorded history, China had been the world's largest economy and it was now resuming that status. Asia as a whole would soon account for two-thirds of the world's middle class, he stated. Re-establishing the galleon trade will require clarity of vision. The Pacific Alliance, for instance, should be clear about its role within Latin America. If it is to be a hub for inter-American trade, it requires increased connectivity and the negotiation of gold-standard FTAs ideally involving the abolition of tariffs, since the transportation costs of trans-Pacific trade already constitute a significant tariff. Secretary Purisima added that the Pacific Alliance should serve as a channel for information, to overcome the cultural and linguistic barriers hampering trans-Pacific trade.

Ambassador Toshiro Suzuki of Japan said that his country would shortly have FTAs with all Pacific Alliance nations once its negotiations with Colombia were concluded. The keidanren has set up a Pacific Alliance task force, and in 2014 Prime Minister Shinzo Abe brought 250 Japanese businessmen on his visits to Colombia, Mexico and Chile. To fulfil its potential, he said, the Pacific Alliance has to overcome several challenges including diversifying its production base and increasing its manufacturing capacity. Japan is investing heavily in Latin America and its involvement in Mexico's automotive industry included the local sourcing of parts. The Pacific Alliance should also integrate its value chain into the global supply chain, improve infrastructure and logistics, harmonise regulations and provide greater support for its SMEs. Finally, the Alliance should raise productivity through investments in education, training and technology. Japan was ready to play a greater role in assisting in all these areas, the ambassador concluded.

Questions and comments to speakers included an emphasis on the need for the Pacific Alliance project to move from a negotiated elite project to one that was more organic and commanded broad popular support. It should move beyond a focus on FTAs and address security and climate change. Greater engagement with SMEs in the Pacific Alliance was also needed, as currently they view greater engagement with Asia as a source of unwelcome competition rather than an opportunity. There was also discussion of the political implications of greater trans-Pacific trade including the need for states to maintain a balance in their relations with the USA and with China.

Plenary 3: The Trans-Pacific Opportunity: Perspectives from the Business Community



(l-r) Yorihiro Kojima, Chairman of the Board, Mitsubishi Corporation; Omar Lodhi, Partner and Regional Head of East Asia, The Abraaj Group; Katia Bouazza, Head, Latin America and Capital Financing, HSBC Bank USA; David Bojanini García, Chief Executive Officer, Suramericana Investment Group; Bill Emmott, Trustee of the IISS; former Editor, The Economist

This session was chaired by Bill Emmott, former editor, *The Economist* and an IISS Trustee. In his opening remarks Emmott emphasised the significance of the IISS inviting business leaders to speak at the Cartagena Dialogue. Relationships between nations are mediated not just by governments but also through people-to-people and business-to-business interactions, he said. Business plays an important role in the interaction between the Pacific Alliance countries and the countries of the Asia-Pacific, with growing trade and investment relations.

Speaking first, **Yorihiro Kojima, Chairman of the Board, Mitsubishi Corporation**, focused on three issues, namely, the importance of free trade to economic development in the Asia-Pacific region, in the context of the growing economic integration through Global Value Chains (GVC); the expectations of Japanese business from the Pacific Alliance countries and the relations between Japan and the Pacific Alliance countries. He viewed the Trans-Pacific Partnership (TPP) trade initiative as an attempt to address the needs of multinational companies with trans-border investments through GVCs. With an aggregate income of US\$2 trillion the Pacific Alliance economies were together as big as Italy's and, therefore, offered an attractive market opportunity for Japanese companies. However, Mr Kojima felt, for trans-Pacific trade to flourish it is necessary that there is political stability and security in the Asia-Pacific region. Japan seeks a stable, secure and peaceful Pacific region. Mr Kojima commended the Japan-Colombia Economic Partnership Agreement (EPA) and viewed it as a good framework for increasing trade and investment flows. He believed this would encourage Japanese firms to invest in the region and also set up joint ventures with Latin American firms in third markets, especially Southeast Asia.

The second speaker, **Omar Lodhi, Partner and Regional Head of East Asia, The Abraaj Group**, drew attention to the growing significance of south-south trade and capital flows and viewed the Pacific Alliance as an initiative that would strengthen such flows. He identified three 'drivers of change' in Asia-Latin America relations: demographic change in both regions; urbanisation; and the rise of a new middle class. While Asian investment in the Latin American region was still very low, he saw this rising, especially with the new regulatory convergence in the region owing to regional blocs such as the Pacific Alliance. In fact the Pacific Alliance had progressed further than ASEAN as far as financial integration and regulatory convergence was concerned.

The third speaker, **Katia Bouazza, Head, Latin America and Capital Financing, HSBC Bank USA**, emphasised the relevance of the globalisation and integration of financial markets for policy makers, especially in emerging markets, in dealing with the challenges posed by cross border flows

of capital. She said global banks like HSBC have opened up investment opportunities in Latin America to international investors and have also been active in taking Latin American investors to attractive investment destinations. Any investor seeks four pre-conditions for taking a cross-border investment decision. Firstly, trade liberalisation and the free flow of goods and services. Secondly, transparent dispute settlement mechanisms. Thirdly, an initial level of protection to facilitate growth of business. Fourthly, policy transparency and stability. 'No one likes uncertainty', she emphasised.

The last speaker, **David Bojanini García, Chief Executive Officer, Grupo SURA**, listed the strengths of the Pacific Alliance economies and emphasised the relevance of financial services integration within the region for domestic and overseas investors. While the integration of regional stock markets was an important step forward in this regard, he sought further liberalisation of policy with regard to pension funds and outlined the potential benefits. Policymakers should promote the benefits of regional integration within the Pacific Alliance to businesses, he insisted, as many business leaders were unaware of the opportunities offered by Pacific Alliance economic integration. He saw the assertion of the rule of law and the freedom of markets and democratic governance as important attributes of the Pacific Alliance that would reassure investors. He believed events like the IISS Cartagena Dialogue would play an important role in increasing local and global awareness regarding the Pacific Alliance.

In the discussion that followed participants underscored the fact that the economic integration of the region had been made possible by each of the governments pursuing sensible economic policies. However, they emphasised the need for greater regulatory convergence. In his intervention, Dr Felipe Larrain Bascunan, former finance minister of Chile, underscored the importance of economic growth, policy transparency and stability and democracy and the rule of law to the success of the Pacific Alliance economies.

Plenary 4: Conflict Resolution and Rebuilding Societies



(l-r) Dr Dino Patti Djalal, former Vice Minister for Foreign Affairs, Indonesia; Senen Bacani, Member, Government of Philippines Peace Negotiating Panel; Dr Gino Costa, former Minister of the Interior, Peru; Gen (Retd) Oscar Adolfo Naranjo Trujillo, Counsel Minister for Post-Conflict Human Rights and Security, Colombia; Dr Tim Huxley, Executive Director, IISS-Asia

The session dwelt on the respective experiences of Asia and Latin America in ending long-running internal conflicts and then underpinning post-conflict stability. **Gen (Retd) Óscar Adolfo Naranjo Trujillo, Counsel Minister for Post-Conflict Human Rights and Security, Colombia**, began by announcing an agreement at the peace talks in Havana on conflict de-escalation measures that will allow for demining work immediately. The Havana talks, he said, are not the result of a military stalemate; rather, they are the result of 15 years of strengthening the military, police and justice system. The decision to negotiate rather than seek outright military victory was ethical, the general said. It is important to show that politics can work for all Colombians, so there is no need to take up arms.

Gen Naranjo recalled that the authorities studied 37 negotiation models before embarking on its peace initiative, to avoid repeating past failures. Planning for the post-conflict phase is already underway, he said, because this is vital to securing peace. In Havana, fundamental agreements have been reached on rural and agricultural issues. Progress has been made on political participation and the controversial topic of narcotics. The government insists that FARC acknowledges its reliance on the drug trade and explicitly renounce it, otherwise narcotics could become a threat to post-conflict stabilisation.

Dr Dino Patti Djalal, former Vice Minister for Foreign Affairs, Indonesia, recounted the steps that ended the three-decade long conflict in Aceh that resulted in tens of thousands of deaths. The Free Aceh Movement (Gerakan Aceh Merdeka, or GAM) was a formidable military force but the 2004 tsunami changed the conflict dynamic entirely, he said, killing 200,000 people and causing so much devastation that GAM was prompted to negotiate. Peace talks were completed in six months. The key to this success lay in five attributes: leadership, pragmatism, a forward-looking mindset, reconciliation and patience. President Yudhoyono's leadership and his insistence that a military solution would not provide a sustainable end to the conflict was vital; he changed society's perception of what constituted victory. Once negotiations began, pragmatism and flexibility were essential to making progress. Thus the Indonesian government agreed to demilitarisation of territory and the deployment of international observers. Equally important was the agreement of both sides to face the future rather than dwelling on past violations of human rights. All these steps enabled reconciliation, by which enemies became political partners, he concluded.

In contrast with the rapid resolution in Aceh, the conflict involving the Moro Islamic Liberation Front (MILF) in the Philippines took 17 years of protracted negotiations. **Senen Bacani, Member, Government of Philippines Peace Negotiating Panel**, spoke about a process that is still potentially vulnerable. A confidence-building programme has been put into effect and in 2014 the government and MILF launched the Bangsamoro Development Plan to help sustainable peace and development. Decommissioning is vital, Mr Bacani said. He identified four essential elements for success in resolving conflicts: leadership, trust, historical justice and supportive consensus. Whereas the points regarding leadership and trust were largely in line with those offered earlier by Mr Djalal, Mr Bacani argued that a commitment to look honestly at past crimes, to right wrongs and make recompense, was vital for peace. It was also vital, he insisted, to have a national consensus in support of conflict resolution.

Returning to the Latin American context, **Dr Gino Costa, former Minister of the Interior, Peru**, argued that El Salvador's experience of ending an internal conflict was more relevant for Colombia than Peru's. In El Salvador there was no ready military solution to the conflict, he said. The

negotiation centred on how the guerrillas could be brought into the political mainstream and what price the state would pay to achieve their demobilisation. Politics has triumphed: two of the six presidents since the peace was made have been from the ranks of former guerrillas. However, the post-conflict period has been very violent, with high levels of crime, perhaps due to the failure to secure economic development.

Colombia's explicit focus on planning for post-conflict stabilisation was wise in the context of El Salvador's troubles, Dr Costa said. However he cautioned that the drug trade made the FARC conflict more difficult to solve while the Statute of Rome and the existence of the International Criminal Court made a political pact less easy to construct.

The following debate touched on demobilisation questions, societal attitudes and the tension between populism and statecraft when addressing conflict resolution. Lieutenant General (Retd) Syed Ata Hasnain, Senior Fellow, Delhi Policy Group praised the prudence of the Indonesian government in redefining its concept of victory. Too often national ego gets in the way of peace, he said.

Gala Dinner and Special Address: Reflections on the Trans-Pacific Challenge



Juan Carlos Pinzón Bueno, Minister of National Defense, Colombia

Speaking at the Gala Dinner, **Colombian Defence Minister Juan Carlos Pinzón Bueno** highlighted Colombia's counter-insurgency success during the past 15 years. The country was able to strengthen the public security forces thanks to a special tax aimed at expanding its capabilities and to Plan Colombia, the aid package promoted by the US. Thanks to these efforts, he said, approximately 90% of municipalities are now free of conflict.

The security forces in Colombia have developed capacities for complex operations and had been able to move from defensive to offensive operations that pushed the guerrillas to remote regions of the country. Minister Pinzón added that security strategies such as Sword of Honour and Green Heart were built on the capacity of the forces to adapt according to the shifting dynamics of armed groups. The country's security forces are now skilled in planning and coordinating joint operations involving multiple agencies.

Building a long-term sense of security, Minister Pinzón added, will take several years. The signing of a peace treaty would be just the first step toward peace and the public forces will be charged with maintaining the security environment in order to achieve social and economic prosperity. He also highlighted the armed forces' involvement in the technical talks with FARC to pave the way for the end of the conflict, despite their 50-year-long struggle against the guerrilla group.

Minister Pinzón expounded on the concept of 'comprehensive security' (*seguridad integral*) – the combination of law enforcement and military tools with other state institutions and services. He argued that the armed forces are tasked with providing the basic security guarantees for the state, but these need to be followed by strong institutions alongside education, health and job opportunities.

This comprehensive approach is needed, he said, to tackle the shifting security dynamics in Colombia. Hybrid threats operating through diffuse networks will continue to pose challenges and require the attention of the armed forces. Hybrid groups, the minister added, are driven both by political and economic aims and benefit from technological innovations, global capital flows and migration. He highlighted terrorism, cyber attacks and transnational criminal groups engaged in the exploitation of natural resources, such as illegal mining and illegal fishing, as key security challenges ahead. These complex threats underscore the important role that the armed forces have to play in the future, as guarantors of peace, development and prosperity.

The Colombian armed forces and police have adapted to these transnational and diffuse networks of armed groups through a process of modernisation, said Pinzón. Its public forces are now in a position to share their experiences with other countries. A total of 24,000 members of the military or police agencies from 70 countries have undertaken training with Colombian security practitioners. This experience and the growing links with the Asia-Pacific, he said, reinforce the role of Colombia as a key regional and global actor.

Simultaneous Special Session I: Insurgencies, Drugs and Insecurity





(l-r) Sarah MacIntosh, Director-General for Defence and Intelligence, Foreign and Commonwealth Office, UK; Javier Ciurlizza, Program Director, Latin America and the Caribbean, International Crisis Group; Gustavo Mohar, Founder and Director-General, Grupo Atalaya; former Secretary General, CISEN, Mexico; Tom Kramer, Researcher, Drugs and Democracy Programme, Transnational Institute; Virginia Comolli, Research Fellow for Security and Development, IISS

The overarching theme was that both Asia and Latin America are struggling to deal with the insurgents that rely on the drug trade and other forms of criminality, and have in some cases become full-time criminals. Across Latin America, organised crime groups are highly adaptable and resilient. They have diversified their business activities, which include drug production and smuggling but also extortion, illegal mining, contraband, counterfeiting and human- and arms-trafficking. Cartels are now vertically integrated in all these criminal activities which, a few years ago, they controlled only tangentially.

There is a relationship between the organisational level of crime, and security. The fragmentation of cartels in Mexico, as a result of government policies, has produced a more disorganised criminal structure that is in flux and features high levels of violence. Elsewhere, violence is increasingly used for coercive reasons and the pattern of attacks has become more selective.

Colombia's conflict with the FARC is unique because it is the only ideological conflict that predates the end of the Cold War but continues today. Assuming that the peace process reaches a successful conclusion, it will have regional implications. One of the negative likely outcomes is that it will intensify the level of criminal activity.

The slide of insurgency towards criminality is a global phenomenon. In Myanmar, there is evidence of close links between insurgents and organised crime. The country is believed to be the second-largest opium producer in the world; illegal mining and logging are also evident. Some armed groups in the north of the country even operate their own drug-control policies. Although ethnic Chinese groups are deeply involved in Myanmar's drug-trafficking, it would be a mistake to blame certain ethnic groups while ignoring the reality that crime-enabled corruption reaches high into the state apparatus. Until recently, the government has focused on arresting addicts and low-level traffickers but now it is considering a development-led approach that will involve local communities and address the issue of land rights, which goes to the heart of discontent, instability and criminality.

Some European states recognise the nexus between insurgency and organised crime, as well as the transnational nature of the threat. The UK, for instance, is providing strategic assistance to partners to improve the socio-economic environment, strengthen governance and institutions, build criminal justice systems and disrupt crime. Yet there is also a responsibility in Western societies to work on demand reduction.

Special Session II: Trans-Pacific Connections: Commodities, Trade and Investment



(l-r) Dr Octavio Pastrana, Member of the Board, Pemex; Jorge Merino, Former Minister of Mines and Energy, Peru; Dr Brendon Hammer, First Assistant Secretary, Americas Division, Department of Foreign Affairs and Trade, Australia; José Juan Ruiz Gómez, Chief Economist, Inter-American Development Bank; Dr Nicholas Redman, Director of Editorial; Senior Fellow for Geopolitical Risk and Economic Security, IISS

Trade has been the foundation of increased commercial ties between Latin America and Asia in recent years, but the cyclical downturn in commodity prices has revealed a structural problem: Latin America is overdependent on commodity exports to Asia. The discussion addressed two principal themes: the importance of investing in mineral exploration to ensure sufficient capacity in the next decade; and the challenges of achieving diversification, through a broader range of exports and the attraction of more foreign, especially Asian, investment.

In Mexico, the government has embarked on an ambitious reform of the oil sector with the aim of attracting the resources necessary to increase output by 1m–2m barrels per day. This has involved constitutional reform and political controversy, in order to establish a new environment characterised by sectoral liberalisation, protection for investment and higher levels of transparency. In Peru, meanwhile, the authorities have cut taxes in response to falling copper prices and are seeking to attract still-higher levels of foreign investment in order to address an expected 2m tonnes per year shortfall in supply to the global market by the end of this decade. Companies from China, Japan and Korea are all heavily involved. Chile, Peru and Mexico together could account for 40% of global copper output. In Peru and Mexico there is a challenge for investors to ensure that new projects are undertaken in a way that ensures the support of local communities. Partnership and development are key to success.

Diversification of exports from Latin America to Asia will depend partly on how ready Latin American states are to receive investment; currently, not all are. There is potentially an investment bonanza at hand: up to half of inward investment to Latin America could be of Asian origin within the next five years, and some investment could flow in the other direction too. Here the Pacific Alliance states seem particularly well-placed, because of their commitment to free markets, open

competition and a rules-based system. Investment will contribute to easing three structural impediments on Latin American economies: informality and low productivity; inadequate infrastructure; and income inequality.

With the right preconditions in place, Latin America will be able to diversify its export of goods and services to Asia, and in particular to take advantage of the expected growth in Asia's middle class. This offers considerable opportunities for services, in particular tourism. For instance, the number of Chinese tourists going abroad each year is expected to double to 200m by 2020 and their appetites will become more sophisticated. Another growth area is agriculture, as improving security in Latin America makes it possible to cultivate undeveloped land; this could help to feed a growing Asia while also lifting large numbers of Latin Americans out of poverty and unemployment. The further development of the Pacific Alliance economies will not only boost trade with Asia, but also raise trade among members. Today, only 10% of the Pacific Alliance's trade is within the bloc but the alliance's recognition that trade is important for development should have a positive influence across the continent.

Special Session III: Organised Crime and the Informal Mining Sector



(l-r) César Ipenza Peralta, Professor of Environmental Impact, ESAN Graduate School of Business; Hernán de Solminihac, former Minister of Mining, Chile; Lisa Viscidi, Director, Energy, Climate Change and Extractive Industries Program, Inter-American Dialogue; Dr Wenguang Shao, Consulting Senior Fellow for China and International Affairs, IISS; Nigel Inkster, Director of Transnational Threats and Political Risk, IISS

The session examined the links between criminal groups and informal miners, an issue of growing concern for the mineral-producing countries of the Pacific Alliance. The boom in commodity prices during the 2000s boosted formal economies but also encouraged non-state armed groups, both guerrillas and organised criminals, to deepen their operations in mineral-rich areas. Participants highlighted how attractive the activity has become for inhabitants of rural areas, since mining is now usually more profitable than agriculture.

In some parts of Colombia and Peru, armed groups are now more likely to engage in informal mining than drug trafficking, encouraged by state weakness. In Colombia, over 80% of mineral extraction is unlicensed. Illegal actors are able to conceal their involvement by tapping into trading companies, which then mix the illegally-extracted minerals with the legal supplies.

China is not only the main buyer of minerals from the Pacific Alliance, but also has its own domestic problems with informality. Efforts to tackle the problem started in earnest in 1997. By then, approximately half of China's coal output was informal. The activity prospered thanks in part to corrupt local officials, especially in regions where coal mining represented a big portion of the economy. Criminal gangs have also had involvement with the activity. But thanks to new laws, regulations and a campaign by the national government, several informal mines have been closed. The government has offered training for small farmers and set a nation-wide inspections programme on coal safety, enforcing technical standards, safety measures and promoting best practices.

Many international policies regarding informal mining were discussed. Efforts by West African countries to apply common regulations and tracking systems could serve as examples for the Pacific Alliance, as long as these are carefully adapted to local realities. On that front, speakers highlighted that there still is little exchange of ideas and best practices between member countries of the alliance.

Some incentives for small miners to seek entry into the legal mining sector have been successful. Some Latin American countries, for instance, have established official institutions to help small miners to become legal and increase productivity while complying with environmental regulations. The guarantee of a minimum price for small miners was cited as a particularly successful incentive because it protects producers from variations in international commodity markets.

As Asia-Pacific countries are significant consumers of mineral supplies, the session analysed the scope for greater trans-Pacific cooperation. It was proposed that countries on both sides of the Pacific increase information exchange to ensure that minerals sent to Asia are from legal producers. At present, the monitoring of the supply chain is conducted occasionally by importers (mostly in Asia), on their own initiative. The exchange of information between law enforcement authorities and the establishment of a trans-Pacific system to monitor mineral supplies could help reduce informality and weaken organised crime.

Special Session IV: Financial Services Integration: Asian and Pacific Alliance Experiences



(l-r) Dr Felipe Larraín Bascuñán, former Minister of Finance, Chile, and Senior Adviser to the IISS; Dr Naoyuki Yoshino, Dean, Asian Development Bank Institute; Dr Wonho Kim, Professor, Hankuk University of Foreign Studies; President, Latin American Studies Association of Korea; Dr Luis Miguel Castilla, Ambassador of Peru to the US; former Minister of Economy and Finance, Peru; Dr Sanjaya Baru, Director of Geo-Economics and Strategy, IISS–Middle East

Speakers in this session considered four main opportunities: the acceleration of growth in the four economies of Pacific Alliance states compared to other South American players; the size of the Pacific Alliance market as a major incentive in attracting capital; the appetite to diversify investment streams; and the aim to harmonise the taxation of capital flows and currency exchanges.

While there was agreement on matters of incentivising investment by reducing tariffs and taxes on transactions, there was controversy about sources of investment in the Pacific Alliance countries. This discrepancy was based on what each speaker perceived to be the immediate needs and best ways to deliver the economic and social goals of the Pacific Alliance. Infrastructure was one topic of contention, with some in the panel maintaining that it is critical to invest in infrastructure to ensure that the states in the Pacific Alliance can thrive long-term, while others referred to the need to balance risk in portfolios, infrastructure being on the risky side of investment. Pension funds were brought up as a major element in the integration agenda, so the matter of whether or not infrastructure should be a large part of portfolios was heatedly debated.

In discussing diversification of income streams and business alliances, speakers concurred that in both regions SMEs are critical, far more than in Europe and the US. Integration there, they claimed, needs to revolve around ensuring that lending mechanisms become far more robust. The relative absence of suitable capital markets, especially for new enterprises, and the perceived lack of support from the state to small businesses, suggests that creative Asian models can be shared across the two regions. For example, the panel discussed how Hometown Investment Trust Funds can go a long way to provide financing to SMEs, having been successfully exported as a model from Japan to Peru, Cambodia and Vietnam.

The panel made clear that creating the mechanisms to inject capital is only part of the solution. The session also addressed the importance of harmonising taxation, as well as matters of currency and liquidity. The Chiang Mai Initiative was raised as a particularly successful model of currency reserve fund. Its success is attributable to the fact that participant countries have a high level of trust and knowledge of each other's macroeconomic features. Members of the Pacific Alliance, moving towards financial integration, will need to consider that unlike trade integration, financial integration is about sharing risks and promoting transparency in ways that enhance their relationship as well as an understanding of the upside and downside of currency collaboration.

The session also yielded a consensus on Mercado Integrado Latinoamericano (MILA), namely that efforts are not as yet sufficient to ensure financial integration, and that structural issues will be best addressed in coordinated micro-reforms which, in turn, will help deliver a broader Pacific Alliance framework.

Plenary 5: An Agenda for Trans-Pacific Cooperation



(l-r) Dr Marty Natalegawa, former Minister of Foreign Affairs, Indonesia; Lee Ark Boon, Deputy Secretary (Trade), Ministry of Trade and Industry, Singapore; Celso Amorim, Brazil's former Minister of Foreign Affairs; Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit, Colombia

Opening the session, **Mauricio Cárdenas Santamaría, Minister of Finance and Public Credit, Colombia**, noted that his country's strong economic performance of recent years was based on achieving a level of trust among consumers, business and foreign investors. The minister noted that the Pacific Alliance was conceived at a time of high commodity prices, but now that the supercycle has passed the true value of alliance has become apparent, as it offers increased markets for the non-commodity sectors.

In addition, the Pacific Alliance helps Colombia and its partners internationally, he said, noting the support that Mexico and Chile had offered his country in joining the OECD. The focus on Asia also underscores the connections between peace, development and global integration for Colombia. The country's peace process will enable the state to establish its presence in territory where currently it is weak, he said. That in turn will open rich territories for agricultural production, and Asia will be the principal market for this output, creating prosperity that will sustain peace.

Surveying trans-Pacific exchanges, **Dr Marty Natalegawa, former Minister of Foreign Affairs, Indonesia**, noted the expansion of ASEAN's initiatives to build the security architecture in the western Pacific in recent years, as well as multilateral initiatives such as the East Asia Summit and ASEAN Regional Forum. He also touched upon APEC, TPP and the Forum for East Asia–Latin America Cooperation (FEALAC) as institutions that serve as a bridging function to Latin America.

Dr Natalegawa offered a two-point agenda for cooperation, focused firstly on physical, institutional and people-to-people connectivity, and secondly on promoting a peaceful Pacific Ocean. It is important to not let sensitivities get in the way of addressing this important subject and confronting reality, he said. In building a new security architecture for the new century, he pointed to three objectives: improving strategic trust, managing territorial disputes peacefully and accommodating the rise of new powers.

Celso Amorim, Brazil's former Minister of Foreign Affairs and former Minister of Defence, took up the theme of peace and security by suggesting that the Pacific could draw lessons from the

up the theme of peace and security by suggesting that the Pacific could draw lessons from the South Atlantic by establishing a zone of peace and cooperation. Central to this success, he said, was the effort to separate the South Atlantic from the broader ocean in a political sense. The former minister reminded delegates that Mercosur was larger than the Pacific Alliance and currently enjoyed higher levels of intra-bloc trade; that organisation and UNASUR, moreover, are overtly political projects designed to establish a zone of peace in which war is inconceivable. By contrast, he noted, the Pacific Alliance has no defence aspiration. Mr Amorim said Brazil is trying to create a Defence Council of South America that would stimulate high-technology industry across the continent and ensure that more of the military equipment procured in Latin America would be produced there.

Returning to the theme of trans-Pacific cooperation, **Lee Ark Boon, Singapore's Deputy Secretary (Trade), Ministry of Trade and Industry** spoke about the importance of boosting connectivity between governments, business and people. He argued for a strong regulatory infrastructure that went beyond FTAs, also embracing investment protection and double-taxation agreements.

Trade negotiations are often difficult because of the internal dynamics in the participant states, he said, but insisted that it was beneficial to tackle trade and investment barriers, because the benefits are felt broadly. This refers in particular to SMEs, that otherwise lack the resources to do business across the Pacific Ocean. The deputy secretary concluded with a bold proposal: to think strategically by concluding an FTA between the Pacific Alliance and ASEAN, rather than focusing on bilateral FTAs. A region-to-region FTA could have huge benefits under rules of origin, he said, and would allow companies in ASEAN and the Pacific Alliance to access global value chains. It could also be a stepping stone towards an Asia-Pacific FTA, he added.

The ensuing discussion touched on the possibility that the Pacific Alliance could one day become a body embracing all of Latin America, as the European Union – which started as the European Coal and Steel Community in 1951 – has done in Europe. There was also discussion around whether there could be functional integration between the Alliance on one hand and Mercosur and other regional bodies on the other. Minister Cárdenas stressed that the Pacific Alliance is open to all states who share the alliance's outlook and values, but it was essential that they adhere to the standards already agreed and implemented. Celso Amorim argued that Mercosur had much better prospects of becoming the EU of Latin America than Mercosur; he also warned that it was important to avoid dividing Latin America between a pro-business, free-trading Pacific and a statist South Atlantic. This would put peace in jeopardy, he warned.

Concluding Keynote Address: Juan Carlos Varela Rodríguez, President of Panama



Juan Carlos Varela Rodríguez, President of Panama

President Juan Carlos Varela Rodríguez of Panama delivered the closing keynote address at the IISS Cartagena Dialogue. His inspiring speech focused on three intertwined themes: good governance, regional and international cooperation, and prosperity.

The president urged fellow world leaders and civil servants not to look at politics as a 'business' but as a way of serving society and addressing issues affecting citizens. Strengthening democracy is, he argued, as crucial as dealing with the challenge of organised crime currently affecting many countries in Latin America. State resources must be used to improve life, he said. Leaders ought to lead by example and prove that the state is capable of caring for its people and the youth in particular. In this way, it would be possible to break the foundation of criminal groups.

These considerations should be at the core of interactions between the region and Asian countries, the president insisted. Priority should be given to human development and continued efforts to eliminate inequality and unemployment, and to ensure universal access to basic services and education. This will consolidate and unify society, while also bolstering peace and making the environment less attractive to transnational criminal networks. In this context, he lauded the Colombian peace process as a model worthy of emulation.

Turning to the Pacific Alliance, President Varela noted that Panama is in the process of accession. He promised cooperation with other regional powers on all fronts and cited the many initiatives undertaken to contribute to national and regional prosperity. Panama is expected to see GDP growth of 6–7% annually from 2016, fired by government investments, and is positioning itself as a passenger and cargo hub. Initiatives include the expansion of the Panama Canal, the expansion of the international airport, and the development of the South Caribbean cruise route.

Increasingly, the president noted, Asian countries and companies are investing and operating in Panama. China, the second largest user of the Panama Canal, has invested in construction. Singapore sponsored the building of a technical school. South Korean technology can be found in local hospitals and the country has invested in energy and mining. Japan is to finance and provide

technical support to improvement works in the Panama City bay.

These forms of cooperation no doubt foster prosperity but ought to be accompanied by information exchanges such as in the context of migration and border control, and by joint efforts to ensue that the international financial system is not exploited for criminal or terrorist purposes, the president said. He concluded his address by stressing the need to build trust among nations to foster cooperation against transnational challenges such as organised crime, natural disasters and pandemics. In this respect, the IISS Cartagena Dialogue was a welcome mechanism to promote the creation and strengthening of bilateral and international ties, he averred.

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