May 2002

Trade and Investment in the Americas

Andean Development Corporation

IV Annual Conference

Organization of American States

Andean Development Corporation

Inter-American Dialogue

Corporación Andina de Fomento (CAF) is a multilateral financial institution that promotes the sustainable development of its shareholder countries, as well as regional integration. Its shareholders are the five Andean Community countries—Bolivia, Colombia, Ecuador, Peru and Venezuela—as well as Brazil, Chile, Jamaica, Mexico, Panama, Paraguay, Trinidad & Tobago, and 22 private banks in the region. CAF serves the public and private sectors providing multiple financial services to a broad customer base comprised of shareholder countries, corporations and financial institutions. Its policies and operations incorporate social and environmental criteria. As a financial intermediary, CAF attracts resources from industrialized countries to Latin America, serves as a bridge between international capital markets and the region, and promotes investments and business opportunities.

The Organization of American States (OAS) is the world's oldest regional organization, dating back to the First International Conference of American States, held in 1890. The OAS Trade Unit was created in 1995 to assist the 34 OAS member countries with matters related to trade and economic integration and, in particular, with their efforts to establish a Free Trade Area of the Americas (FTAA).

The Inter-American Dialogue is the premier center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue engages public and private leaders from across the Americas in efforts to develop and mobilize support for cooperative responses to key hemispheric problems and opportunities.

To order copies of this publication please contact:

Inter-American Dialogue
1211 Connecticut Avenue, NW
Suite 510
Washington, DC 20036

Tel: 202-822-9002
Fax: 202-822-9553
Email: iad@thedialogue.org
Website: www.thedialogue.org

May 2002

Trade and Investment in the Americas

Andean Development Corporation
IV Annual Conference

Organization of American States

Andean Development Corporation

Inter-American Dialogue

May 2002

Photo credits: Rick Reinhard, Jay Mallin

Contents

Preface

César Gaviria, Enrique García

I am pleased to present this report on the fifth annual Andean Development Corporation (CAF) Conference on Trade and Investment in the Americas held on September 9, 2001 in Washington, D.C. Like its four predecessors, this conference brought together government officials, policy analysts, and business leaders from Latin America, Canada, and the United States for a day of intense and expansive discussions about the Andean region and hemispheric relations generally.

The Andean nations remain troubled, but since last year's conference, the region has advanced on several important fronts. In contrast to the rest of Latin America in 2001, the Andean economies performed relatively well and there was some political improvement. The most important change occurred in Peru where there was an exceptionally encouraging political transition. We also witnessed significant structural reform in Colombia, economic stability in Bolivia, and considerable growth in Ecuador. Venezuela held its own in 2001, but the country may not be able to avert crisis in the face of falling oil prices and mounting opposition to the government.

Many challenges remain to be confronted. The region's economies continue to be dangerously vulnerable to external shocks and in need of investment and a competitiveness boost. The countries are plagued by political instability, violence, and grave poverty and inequality.

The conference underscored the critical importance of Trade Promotion Authority (TPA) in the United States to advance negotiations of the Free Trade Area of the Americas (FTAA). Special attention was given to Latin America's two largest economies, Brazil and Mexico, and the different ways in which those countries are pursuing integration into the global economy. The final discussion, about Latin America's energy policy, stressed the need to integrate the energy networks of the Andean countries and the potential for a regional policy in the gas and electricity sectors.

The annual CAF conference is jointly sponsored by the Andean Development Corporation, the Organization of American States, and the Inter-American Dialogue. The aim of this sustained collaboration is to demonstrate the importance of U.S. economic and political relations with the Andean region, and to provide a detailed review of broader hemispheric economic affairs to Washington officials and opinion leaders. We are pleased that, year after year, top analysts and key decision makers from the United States, Latin America, and Canada have agreed to take part in the CAF meeting, and that the interest of the Washington policy community in the region continues to grow.

Peter Hakim
President
Inter-American Dialogue

Acknowledgments

This report on the fifth annual Andean Development Corporation (CAF) Conference on Trade and Investment in the Americas, like most endeavors, is the product of collaboration among many people and several institutions. In particular, we want to recognize the valuable contribution made by the conference participants themselves, who shared their analysis and recommendations with cogency and intelligence.

We also want to thank our keynote speakers—Andean Community Secretary General Sebastián Alegrett, Ecuador's Minister of Foreign Trade Richard Moss Ferreira, and Colombia's Minister of Finance Juan Manuel Santos—for providing provocative comments that helped our understanding of the issues.

We are grateful to Fidel Jaramillo of CAF, Joaquín Vial of Harvard's Center for International Development, and the Dialogue's Michael Shifter and Scott Otteman (now with the National Association of Manufacturers) for preparing this year's background papers that helped frame the discussions. Gillian Morejon of the Inter-American Dialogue served as rapporteur of the meeting, and her report published here captures the discussions admirably.

Enrique Iglesias

Ana Mercedes Botero and Carlos Zannier of the Andean Development Corporation and Cecilia Carro and Rebecca Trumble of the Inter-American Dialogue deserve special mention for their contributions to the design and implementation of the conference. Joan Caivano and Rachel Menezes of the Inter-American Dialogue provided critical oversight in producing this volume.

As always, we are indebted to the Andean Development Corporation for their financial and overall support. ■

Rep. Jim Kolbe (R-AZ), Tony Gillespie of the Forum for International Policy, Amb. Luis Alberto Moreno of Colombia.

Conference Agenda

Fifth Annual Andean Development Corporation Conference on Trade and Investment in the Americas

Andean Development Corporation
Organization of American States
Inter-American Dialogue

September 6, 2001 • Carnegie Endowment for International Peace • Washington, D.C.

8:15–9:15 a.m.	***Inaugural Remarks: Andean Region Overview***	
	Speakers:	Enrique García, Andean Development Corporation
		César Gaviria, Organization of American States
	Moderator:	Peter Hakim, Inter-American Dialogue
9:15–10:30 a.m.	***Economic and Political Developments in the Andean Community***	
	Speakers:	Gustavo Fernández Saavedra, Foreign Minister of Bolivia
		Lourdes Flores Nano, Christian Democratic Organization
		Fidel Jaramillo, Andean Development Corporation
		Guillermo Perry, World Bank
	Moderator:	Michael Shifter, Inter-American Dialogue
10:45–12:00 p.m.	***Evolving U.S. Policy in the Andes***	
	Speakers:	Bernard Aronson, Acon Investments, L.L.C.
		Fernando Cepeda Ulloa, University of the Andes
		Lino Gutiérrez, Acting Assistant Secretary for Western Hemisphere Affairs, U.S. Department of State
	Moderator:	Karen DeYoung, *The Washington Post*
12:00–1:30 p.m.	***Latin America's Economic Prospects: A Business Perspective***	
	Speakers:	Joyce Chang, JP Morgan Chase & Co.
		David Rothkopf, Intellibridge Corporation
		Everett Santos, Emerging Markets Partnership
	Moderator:	Joaquín Vial, Harvard University

1:30–3:00 p.m.	***Working Lunch: The Future of Integration in the Western Hemisphere***	
	Speakers:	Luiz Felipe Lampreia, Brazilian Center of International Relations
		Andrés Rozental, Rozental & Asociados
	Moderator:	Moisés Naím, *Foreign Policy*
3:00–4:45 p.m.	***Progress toward the Free Trade Area of the Americas***	
	Speakers:	Alicia Frohmann, Ministry of Foreign Affairs of Chile
		José Alfredo Graça Lima, Ministry of Foreign Relations of Brazil
		José Manuel Salazar, Organization of American States
		Miguel Rodríguez Mendoza, World Trade Organization
		Jeffrey Schott, Institute for International Economics
	Moderator:	Peter Hakim, Inter-American Dialogue
4:45–6:30 p.m.	***Energy Policy in Latin America***	
	Speakers:	Luis Giusti, Center for Strategic and International Studies
		José A. Rojas Ramírez, Inter-American Development Bank/Venezuela
		Carlos Salinas Estenssoro, Vice Minister of Energy of Bolivia
	Moderator:	Luis Enrique Berrizbeitia, Andean Development Corporation
7:30–9:00 p.m.	***Closing Reception – Organization of American States***	
	Speakers:	Sebastián Alegrett, Secretary-General, Andean Community
		Enrique García, Andean Development Corporation
		César Gaviria, Organization of American States
		Peter Hakim, Inter-American Dialogue
		Richard Moss Ferreira, Minister of Foreign Trade of Ecuador
		Juan Manuel Santos, Minister of Finance and Public Credit of Colombia

Rapporteur's Report on the Fifth Annual Andean Development Corporation Conference

Trade and Investment in the Americas

September 6, 2001[1]
Carnegie Endowment for International Peace
Washington, DC

Opening Remarks: Andean Region Overview

Even with increased economic and financial pressure on the Andean region due to the Argentine financial crisis, **César Gaviria**[2] predicted a positive future for the region at the fifth annual Andean Development Corporation (Corporación Andino de Fomento/CAF) Conference on Trade and Investment in the Americas. If Argentina is not able to meet its external financial obligations in the next few months and years however, he noted that the damage to Latin America will be significant. He stated that the Andean region is doing better than the rest of Latin America in the context of a negative global economic environment.

Concerns about oil and other commodity prices were shared by the panel. Recent high oil prices have helped oil exporters like Colombia, Venezuela, and Ecuador, but oil prices are volatile. **Enrique García** pointed out Latin America's vulnerability to external shocks in its commodity and natural resource dominated exports, which account for at least 70% of total Andean exports. Regarding the prospects of successfully concluding the negotiation of a Free Trade Area of the Americas (FTAA), García highlighted the steps taken by Latin American countries toward integration—in spite of the inability to date of the United States to obtain trade promotion authority.

Peter Hakim spoke of the increased importance of the annual Conference on Trade and Investment in the Americas, not only as the first meeting after the U.S. summer, but also as the model Latin American forum in Washington. Even with the economic difficulties the Andean region has faced, Hakim stated, CAF enjoys a high investment grade rating. CAF is not only a vehicle for transferring resources between countries, but also a development bank that loans funds. Hakim remarked that the United States and Canada should take note of this success and follow its example in looking toward Mexico.

"…the Andean region is doing better than the rest of Latin America in the context of a negative global economic environment."

Paulo Sotero of *O Estado de São Paulo*

1. Because the conference took place before both September 11, 2001 and the crisis in Argentina, the discussions and comments by panelists do not reflect these events.

2. Speakers' titles and brief biographical sketches can be found in Annex 2 on page 61.

Economic and Political Developments in the Andean Community

Michael Shifter moderated the discussion on the interplay of recent political and economic events in the Andean region. He noted the latest *Latinobarómetro* public opinion poll results showing a decrease in support for democracy as the preferred form of government.

Economic forecasts for the region were mixed. Commodity prices and vulnerability to external shocks concerned many of the panelists. **Fidel Jaramillo** said the short-term macroeconomic outlook for the Andean countries was grim, especially with the global recession and the virtual halt of external financing. With the slowing U.S. economy, external capital flows to the region were predicted to be scarce, and increasingly selective and expensive. Ecuador, Colombia, and Venezuela are all oil producers, so a decrease in oil prices will significantly affect these forecasts, according to Jaramillo.

Guillermo Perry discussed the "roller coaster" of up-and-down growth rates that Latin America has experienced in the past decade. He stated that the year 2000 recovery had been good, but that, given the highly integrated nature of trade and dependency on exports in the region, 2001 growth levels have stagnated with the slowdown of the global economy.

José Miguel Vivanco of Human Rights Watch–Americas, Enrique García, Ana Mercedes Botero of CAF

Gustavo Fernández Saavedra mentioned that the social crises continuing throughout the region stem from weaknesses in the political, economic and social structures, and the countries' reliance on the sale of commodities whose prices have been very low.

Lourdes Flores Nano analyzed the challenge of consolidating stable politics and governments. She said the Andean countries face the choice between *caudillismo* (strongman rule), typified by personalism and fragility, and stable, party-based politics. Perry agreed, noting that the Fujimori political scandal scared off investment in Peru, helping the economy to stagnate. He predicted that the clear, open-market economic signals being sent by the recently installed government of President Alejandro Toledo may lead to an investment boom in the near future.

Fernández Saavedra argued that globalization has not helped or brought peace to the Andes. Instead, the region's insertion into the world economy has generated conflict. He cited the need for civil society participation in policy-making and an active search for new answers. Flores Nano added that the lack of social reform and equity in the Andean region decreases their ability to take advantage of the positive aspects of global integration.

Richard Frank, Everett Santos, David Rothkopf, Joaquín Vial, Joyce Chang

Evolving U.S. Policy in the Andes

Karen DeYoung began the session by posing the question: Has U.S. foreign policy towards the Andean region truly evolved with the presidency of George W. Bush? **Lino Gutiérrez** stated that the Bush Administration has reviewed existing programs and determined that the Andean region needs to be a priority area. **Bernard Aronson** said that although U.S policy is changing, significant continuity also exists. He questioned if U.S. policy was going far enough in the region to quell the rising tide of expectations for results by Latin Americans.

One of the central changes in U.S. policy in the region is the expanded focus on Colombia, Aronson said. But he warned that there is a danger that support for the Andean region, especially Colombia, could become an increasingly partisan issue in the United States. This could happen, echoing U.S. policy toward Central America in the 1980s, if Republicans overstress military aid, while Democrats insist on human rights issues, alternative development schemes, and continued support for the peace process. Gutiérrez indicated he does not fear the loss of bipartisan support, but instead is concerned with the new phenomenon of "narco-guerrillas," who are supported and motivated by drug money rather than ideology. These concerns are part of the Bush Administration's Andean Regional Initiative, which addresses democracy, development, and drugs.

Economic instability in Colombia has led to social instability and the weakening of the country's democratic tradition, according to **Fernando Cepeda**. This is the hidden effect of Plan Colombia: paramilitary and guerrilla groups have become an accepted part of the political process. This evolution toward armed political parties is irresponsible, says Cepeda. He also commented on the fact that 90% of Colombians reject the current government's management of the peace process to date, and noted that all presidential candidates in the 2002 elections share this sentiment.

Fernando Cepeda

Latin America's Economic Prospects: A Business Perspective

Moderator **Joaquín Vial** opened the panel discussion by noting that, despite the uncertainty that has characterized the economies of Latin America in recent years, the Andean region has performed relatively well.

Certainly when compared to Argentina and Brazil, **Joyce Chang** explained, the Andean region looks more attractive for short-term investors. The recessions in the two big South American countries and the economic slowdown in Mexico have created an unexpected investment "safe haven" in the Andean countries. For the first time, Chang pointed out, Andean bonds are trading below the average spread for Latin American countries.

The Andean economies have shown some independent signs of strength as well. Vial highlighted structural reforms in Colombia, a smooth political transition in Peru, and the ability of Bolivia to absorb shocks. Chang predicted 6 percent growth for Ecuador this year and commended Colombia on its level of economic stability.

David Rothkopf said the U.S. economy must begin growing again in order to sustain Latin America's recovery and the Andean region's improved economic performance. **Richard Frank,** on the other hand, pointed to declining investment returns in the United States as a potential positive

"…there is a danger that support for the Andean region, especially Colombia, could become an increasingly partisan issue in the United States."

Joyce Chang

“Hay que escoger o la cola del león o la cabeza del ratón.”

development for drained Latin American capital markets. Rothkopf acknowledged that the Andean region has outperformed the rest of Latin America, but he remained pessimistic, warning that the next 12 months will be more difficult for Latin America than any of the last four years.

Everett Santos voiced concern over a decline since 1995 in the region's willingness to advance on the central issues of privatization, democratization, and trade expansion. He mentioned inflation as the one area where the Andean region has not experienced a recent "rollback."

Panel participants agreed on most of the issues that will determine investors' perceptions of the Andean region. Frank and Rothkopf emphasized the importance of gaining access to larger export markets and the need for the Andean region to take the initiative in increasing market access within the regional and global economies. Stability was another key factor that investors would surely be monitoring. Frank mentioned Chávez's "chilling speeches" and narcotraffickers as two possible sources of investor concern. Chang's outlook for the region, and especially Venezuela, was sensitive to the possibility of a drop in oil prices.

Santos reflected the opinion of the panel when he asserted that the Andean region's future economic success would be highly dependent on its ability to attract new foreign and domestic investment. While the participants were pessimistic about Latin America's outlook as a whole, they shared Joyce Chang's assessment that the Andean region in the past year had "more positives than negatives to highlight" as compared to its Southern Cone neighbors.

The Future of Integration in the Western Hemisphere: Perspectives from Brazil and Mexico

Moisés Naím moderated the luncheon discussion between two top former diplomats from Brazil and Mexico. He first posed a question about trade agreements, referring to President Cardoso's comment that for Brazil the FTAA was an option, while MERCOSUR was its destiny. Mexico, on the other hand, seems to have found its destiny through integration with the United States via NAFTA.

Luiz Felipe de Lampreia stated that the plurality of Brazil's trade partners makes it difficult to "put all its eggs in one basket." This fact, combined with Mexico's special situation of a shared border with the United States, differentiates the two countries' approaches to trade agreements. **Andrés Rozental** suggested NAFTA may appear to have been Mexico's destiny but it also was a conscious policy decision by recent governments. Though Mexico may be very strongly tied to the U.S. market, Rozental noted that "hay que escoger o la cola del león o la cabeza del ratón" (one has to choose between being the tail of the lion or the head of the mouse) and most people believe Mexico made the right choice in choosing the former.

Mexico and Brazil have signed agreements regarding the automobile industry, and Mexico seeks greater integration between NAFTA and MERCOSUR. The agreements made on the automotive industry, Lampreia assured, have helped improve bilateral relations between the two countries. Brazil does have concerns about Mexico's industrial policy; Lampreia believes it involves too many subsidies and could undermine the Brazilian chemical and electrical industries' competitiveness. Both countries agree that much work can be done together, even though they are pursuing different integration strategies. Lampreia assured that they will not exclude each other and will act together.

The challenge remains, however, for Mexico to situate itself in the region. Mexico had relinquished its relationship with its southern neighbors and is seeking, through efforts such as the Plan Puebla-Panamá initiative and the reactivation of the G-3—a 1991 free trade agreement signed by Colombia, Venezuela, and Mexico—to reconstruct those ties. Plan Puebla-Panamá is a consulting mechanism for Mexico and Central America that works toward the development of southern Mexico and

Andrés Rozental, Moisés Naím, Luiz Felipe Lampreia

regional integration. Mexico would like to integrate more with Central America and the CARICOM region and is committed to pursuing a policy of active diplomacy in regional affairs, according to Rozental.

Beyond U.S. opposition to the non-proliferation treaty, Brazil does not have many differences with the United States in the foreign policy arena, Lampreia said. Brazil's perspective has converged with that of the United States and Europe, but is also closely aligned with the advanced developing countries, such as South Africa, India and Egypt. Rozental noted that although Mexico is committed to the WTO, it is also pursuing regional and sub-regional agreements, and differs with the United States on issues such as policy towards Cuba.

It is a simplification to say MERCOSUR is dead, stated Lampreia. The Southern Cone trade bloc's initial hopes may be too ambitious for the current context, he said. He suggested that at present the consolidation of free trade among the members of MERCOSUR should be stressed, as well as the creation of a South American infrastructure. The current focus should be the creation of a space of common interest, rather than a customs union or common external tariff. The customs union's requirement of a common external tariff is an impediment to membership by countries like Bolivia and Chile. Argentina, he suggested, needs increased support from the IMF and the United States. Lampreia argued that Argentina is on the right path; it just needs a stronger international environment in order to prosper.

Lampreia and Rozental debated the necessity of passage of Trade Promotion Authority (TPA) by the U.S. Congress. Lampreia said that not having a congressional mandate is not necessarily a bad thing; the last round was achieved without free trade authorization. It is hard to have serious negotiations without TPA, however, he acknowledged. Rozental agreed, saying that in multilateral trade negotiations, be it the FTAA or the WTO, it is easier if the United States has TPA. When discussing FTAA, however, most countries are not willing to move forward to make market access concessions unless they are assured of U.S. congressional approval.

Lino Gutierrez

> **"It is a simplification to say MERCOSUR is dead….But its initial hopes may be too ambitious for the current context."**

Through the implementation of NAFTA, Mexico has opened to the global market, but the increased growth that has resulted has not yet succeeded in lessening the gaps between different economic actors, regions, and groups inside the country. Mexico is currently working on a regional approach to fostering more balanced development (together with Central American nations). But the Fox government is also pursuing domestic policies to achieve the same balance within Mexico, he said. The social challenge is a large burden for Brazil as well, Lampreia agreed, and the difficulties have been compounded by the population growth rate explosion and high levels of migration. Brazil is working to invest more in education and health, but private consumption needs to be improved.

"Trade Promotion Authority (TPA) will be crucial when market access negotiations begin."

Progress toward the Free Trade Area of the Americas

Moderator **Peter Hakim** opened the FTAA discussion by asking what interest Chile has in the FTAA as compared to MERCOSUR. **Alicia Frohmann** said that Chile has been a very enthusiastic participant in FTAA discussions since the beginning of integration conversations. Chile perceives problems with the arbitrariness of U.S. trade laws, including anti-dumping restrictions and agricultural subsidies. She said that although Chile recognizes that true integration happens only with neighbors, Chile nonetheless is seeking to negotiate trade agreements with all of its major trade partners. Some neighboring countries do not look to Chile as a partner in trade agreements because of its small market size; she believes Chile's path to regional integration would be sooner achieved through the FTAA than MERCOSUR.

Miguel Rodríguez Mendoza said he views regional and multilateral agreements as complementary. If properly handled, the FTAA could make the most of this complementarity, he suggested. The biggest concern is that multilateral agreements will be replaced by regional initiatives, but he said that there are a number of ways the

José Alfredo Graça Lima

agreements can be complementary. He argued that issues such as market access, one of the most important in the FTAA process, should be dealt with through simultaneous regional and multilateral negotiations.

Peter Hakim asked the panelists to discuss the importance of Trade Promotion Authority (TPA) for furthering the FTAA talks. Frohmann argued that it is not essential that the Bush Administration have it immediately, but that it will be crucial in May 2002, when market access negotiations begin. **José Alfredo Graça Lima** and **José Manuel Salazar** concurred.

Rodríguez Mendoza stressed that the quality of TPA is more important than the timing of its granting. Negotiating authority is needed to complete the negotiations, not start them, he said. **Jeffrey Schott** stated he is confident that President Bush will spend the political capital required to obtain congressional approval of TPA, and that the true problem was the consensus within the country on what U.S. trade objectives should be. Frohmann was also concerned about the similarities of the current political situation to the Clinton Administration's unwillingness to spend the political capital necessary to get Fast Track authority.

José Manuel Salazar reiterated that the FTAA is an ambitious project that represents a choice between globalization with or without rules. The regional trade area could become a mechanism for anchoring the second or third generation of policy reforms that are still required in Latin America. The FTAA also represents a higher level of engagement with the summit process, he said.

Energy Policy in Latin America

Luis Enrique Berrizbeitia discussed the lack of uniform energy policy in the region; energy policy in the Andes is resource and country-based. There is potential for region-based policy in the gas and electricity sectors, and a hemispheric policy in the oil sector. Berrizbeitia stated that this policy would have to be linked to market reform.

Liquid natural gas (LNG) projects were also discussed and have demonstrated a dependency on expectations of prices in the United States. The natural gas price and electricity markets in Latin America are closely linked, and demand is increasing, especially within Brazil.

Luis Giusti discussed the current situation in Latin America. He stated that the United States is the most important market for Latin America. Ten million barrels of oil are produced in Latin America per day, but capacity is underused. Bolivia, Venezuela, and Peru are in good positions, he believes, but Mexico requires a fresh supply of capital in order to prevent a drop in oil production in 2010. Colombia and Venezuela still have security issues to work through; Ecuador and Peru are moving in the right direction; Brazil will do well in electricity issues, Giusti believes.

Carlos Salinas Estenssoro pointed out the difficulties in moving gas, and the fact that Mexico only has two major gas connections to the U.S. network. Total integration exists in the Southern Cone and projects are planned to connect Mexico with Central America, and Bolivia with Argentina and Brazil. There are very few connections within the Andean region, and he suggested that the pipeline should be utilized to integrate the region. An increased demand should be developed in the domestic markets of the Andean region, and they should continue their integration with foreign markets.

Natural gas, Estenssoro believes, will drive energy development over the next 50 years. Venezuela possesses 50 percent of the total reserves of Latin America, but 90 percent is associated gas, which is not ready for consumption. Bolivia's reserves have grown from 3 to 10 percent of the total in Latin America. Estenssoro concluded by saying that there needs to be an increase in the rational use of energy, and that gas should be the leader. ■

"Ten million barrels of oil are produced in Latin America per day, but capacity is underused."

Luis Giusti, Luis Enrique Berrizbeitia, Carlos Salinas Estenssoro

Keynote Addresses

Remarks by *Sebastián Alegrett*

Secretary General of the Andean Community

> "In 2000, Andean exports to the United States were 40% higher than in 1999."

Sebastián Alegrett, Richard Moss Ferreira, Juan Manuel Santos

Mr. César Gaviria, Secretary General of the Organization of American States, Ministers, Ambassadors, ladies and gentlemen:

It is an honor for me to address this distinguished audience. I would like to thank Mr. Enrique García, President of the Andean Development Corporation, and Mr. Peter Hakim, President of the Inter-American Dialogue, for having asked me to take the floor at this conference.

This has been a year of progress for the Andean Community. As we advance down the road of open regionalism and move toward greater economic stability, we can note significant macroeconomic improvements among all our member countries. Bolivia, Colombia and Peru have achieved single-digit inflation, followed closely by Ecuador and Venezuela. Furthermore, at the meeting of the Advisory Council for Ministers of Finance, Presidents of Central Banks and Officers in Charge of Economic Planning, held in June of this year, all member countries reiterated their common goal of achieving and maintaining single-digit inflation, and agreed, as a second macroeconomic goal, to hold the fiscal deficit to a maximum of 3% by December of 2002.

Likewise, our trade figures continue to rise as we improve and advance with our integration. Exports in the Andean Region increased by 31% in the year 2000, led by Ecuador, which reported a significant gain of 49%. Trade with third countries outside the region has also seen considerable growth. Andean exports to the United States for the year 2000 were 40% higher than in 1999. This year, albeit more slowly, trade between the Andean countries continues to expand, despite unfavorable conditions both within and outside of the subregion.

In June of 2001 we held the XIII Summit Meeting, at which the Andean presidents signed the Carabobo Agreement, thus committing our countries to forge ahead with economic integration and reaffirming our pledge to tackle the common political and social challenges we face, in particular in the fields of education, poverty and sustainable development.

Further, the presidents reiterated the importance of improving the Common External Tariff, thus sending a clear signal regarding their commitment to establish the Andean Common Market by the year 2005. The Andean Community is aware of how important the Common External Tariff is to the improvement of the competitiveness of our exports. Thus the Commission, with the support of the Advisory Council for Ministers of Finance, Presidents of Central Banks and Officers in

Charge of Economic Planning is actively working to ensure its implementation.

The presidential meeting also provided the occasion for the approval, by the Andean Council of Ministers of Foreign Relations, of the Andean Plan for Cooperation in the Struggle Against Illegal Drugs and Related Crimes. Through this initiative, member countries will join forces against this common threat while, simultaneously, each country strengthens its own local anti-drug strategy.

One of the most important decisions adopted by the Andean Council of Ministers of Foreign Relations will allow Andean citizens to use their national identification documents when they travel to other member countries. This measure will go into force in four of the five member countries in January of the coming year, and will apply to all countries by the end of 2004 at the latest. This is a step toward the free movement of our nationals.

The countries also agreed to create a regional passport for the Andean Community. This document will contribute to create a greater feeling of identification among our citizens and will help promote our region abroad.

In terms of relations with third countries, our negotiations with Mercosur regarding the establishment of a free trade zone in January 2002 continue apace. Along similar lines, the Ministers of Foreign Relations of the Andean Community, the Mercosur and Chile recently approved a mechanism intended to promote political dialogue. This will be an appropriate space for political coordination, as well as to broach social and cultural issues we share, such as those concerning the development of an integrated infrastructure in South America. In this regard, I would like to indicate that closer relations between the Andean Community and Mercosur are being forged in the areas of transportation, energy and telecommunications, which will offer greater opportunities to private investors. This initiative has the financial support of the Inter-American Development Bank and the CAF.

The Andean Community is also firmly committed to hemispheric integration and the creation of the Free Trade Area of the Americas. We are very proud of the fact that Ecuador is presiding over the negotiations at this time. Our countries play a proactive role in each negotiating group and will continue to participate as a block in these negotiations.

In addition, we are embarked upon the task of updating and expanding the Andean Trade Preferences Law (ATPL) with the inclusion of Venezuela in the program. ATPL has benefited the private sectors of the Andean countries and the United States. Our ministers of commerce and ambassadors are working hard to see the ATPL renewed, and have enjoyed decided support from the U.S. private sector. Support from the Inter-American Dialogue and its members has been especially strong. I would like to thank you for this support and encourage you to continue working for the renewal and expansion of the aforementioned preferences.

I would now like to comment briefly on our position regarding the Argentine crisis. Some analysts in the international community have expressed their concern regarding the vulnerability of the Andean Community, given the economic uncertainty in Argentina and in Mercosur as a whole. Allow me to assure you that the Andean Community is today better prepared to face the situation than it was when the Brazilian and Russian financial crises occurred.

The fact that we have continued our negotiations with Mercosur regardless of the situation constitutes proof of the growing solidarity between our two groups of countries.

We sincerely hope that when the free trade zone between these blocks of countries is established early next year, the Argentinean crisis will be over, thus making a negative influence upon our trade flows less likely.

The General Secretariat recently finished a study of the impact of the Argentinean crisis on the Andean Community. Its conclusions indicate that

“The Andean Community is today better prepared to face the Argentine crisis than it was when the Brazilian and Russian financial crises occurred.”

the commercial impact of this crisis upon our region will be minimal, given the incipient exchange between the two groups at the moment. Trade figures show that the exchange between the Andean Community and Mercosur represent only 4% of our exports and 8% of our imports.

We are working very hard to consolidate our process of integration, while making efforts to relate more closely to neighboring countries, as well as those outside the continent with whom we maintain trade relations.

To conclude, I would like to once again thank the sponsors of this conference. It has been a pleasure for me to share with you our great accomplishments in the construction of a more solid Andean Community.

Thank you very much. ■

Remarks by *Richard Moss Ferreira*

Minister of Foreign Trade of Ecuador

This past weekend, my five- and three-year-old sons showed up in our bedroom at 6:30 a.m., as they normally do. But this time they came with a new Monopoly game that their grandmother had given them. Their early morning proposal was that we play Monopoly, and since I was going to be away the upcoming week and wanted to give their mother a chance to rest, I took them up on the challenge and went to another room where we lay out the game board on the floor.

I looked at the disparities of this Monopoly match—adult MBA, current minister of trade vs. three- and five-year-old—and thought how glad I was that there was no press to cover this "business simulation exercise." Imagine the headlines, especially if I lost!

Life has a way of constantly reminding us that the greatest lessons to be learned require an attitude of humility. When I sat down to play with the kids I thought I, the adult, would take advantage of this opportunity to help my five-year-old with his newly found interest in arithmetic—and we could even get a head start on fundamental concepts such as expenditure vs. investment, wealth vs. liquidity, value added, and perhaps even the time value of money!

The arrogance of my attitude became obvious to me very early in the game, and the experience gave me insights I found so valuable, I wanted to share them with you.

My five-year-old is very bright, and was trying hard to add the numbers of the dice, understand the difference between a $10 and $100 bill, and figure out the meaning of a Community Chest maternity charge. He did however clearly understand one essential concept—the way to win was buying property and putting houses and hotels on them. He grabbed the concept of generating value added immediately. I saw that he would quickly catch on, and become a partner and rival that will give me enormous pleasure and enjoyment.

The three-year-old is also very bright, but he hasn't quite grasped the essence of the game. He did not understand the rules, thought that the only way to get rich was raiding the bank, and when his horrified parent told him there were rules that had to be respected, he figured he didn't have a chance to win, quickly lost interest and began asserting his presence by disrupting and eventually kicking the game board.

Any similarity to manifestations we have seen in Seattle, or by Indians in the central plaza of Quito is purely coincidental, although the underlying frustrations may be the same.

Global Community

Today we are more interdependent than ever before, and the notion of a global community is ever more real. The only way this community will provide the stability we all need for development and growth is if all those present feel they have a chance of being involved and even to win. People want to be able to see that in this new flurry of change, with new and incomprehensible rules set by forces from afar, that there is something in it for them, too.

I quote Tomas Friedman from his book *The Lexus and The Olive Tree*, "The key to being a successful geopolitical shaper is being generous and not too overbearing, so other countries see benefit—to themselves or to the stability of the region around them—from adapting to your standard and geopolitical rules."

At this point in history, when our Andean economies are headed toward meeting up to the challenge of the FTAA, convincing local businesses to come play the global game is not easy, and they need to develop confidence in their ability to produce and sell their products in the international markets. But they also need encouragement that the rules will be such that they can *win*. The renewal and expansion of the American Trade Preferences Act (ATPA) is in this sense a vitally important and visible signal.

ATPA was set up as a mechanism to help Andean countries facing the costs of the war on drugs, as an incentive to the search for alternative sources of legitimate wealth creation, and to help integrate and grow the economies of these nations through access to the American market. Ten years later we can objectively see that the results of this initiative were very positive, and with relatively small costs to the American producer.

In requesting that the new ATPA extend its coverage to new products such as textiles and vacuum packed tuna, we do so knowing that this is of fundamental importance to us in terms of creating jobs and growing our export potential, while the impact on the U.S. economy is minimal, especially in comparison to your imports from Asia, where the true competition for the American industries lies.

Our countries continue on course towards internationalizing our economies, and are committed to accelerating down this runway, as we prepare for our FTAA takeoff. As we move forward we find there are products and industries where we can compete, but when we find them, it is important that our hemispheric partners allow us to nurture our winners.

At this point the renewal and extension of ATPA has become a necessary boost to get us in the air. I believe that cutting off the engine at this point would eliminate the momentum gained in the vision of creating a Free Trade Area for the Americas.

"Renewal and extension of ATPA has become a necessary boost to get us in the air."

Connectivity

As I look at today's agenda and review my notes on the excellent presentations we received, I can only thank the CAF and the Inter-American Dialogue for yet another excellent initiative.

Yet, there is a major concern I want to share with you: the need to look at rather traditional problems of trade, development, investment, and competitiveness and their solutions with the perspective that we have a new set of tools with which to attack these problems. Today, the potential for very creative and innovative solutions to our Gordian knots exist, but we have to explore these together more intently.

Looking at history, we can spot crucial moments when an existing system was replaced by a more current, and usually democratic and inclusive one. These moments usually follow bloody revolutions, catastrophies, or world wars.

I believe that today, in the early days of the "Digital Era," we face one of the brightest and most important opportunities to reduce the differences between the haves and the have-nots. We also face a turning point where allowing the status quo to continue, will take us down a road where the chasm will grow so big, so exponentially fast, it will no longer be surmountable. It is like wanting to cross the Grand Canyon: if you are intent on getting to the other side, you best do so before the Colorado River becomes the Grand Canyon.

This concept is no longer very new, but it is at a ripe point to become a central issue when we think of creating policies to develop a more viable and sustainable global economy and community. I would like to recommend that the issue of digitizing our societies, and of facilitating innovation, creativity, and entrepreneurship for education, for health care, for transparency, for competitiveness be placed front and center on our national, regional and multilateral agendas in a very aggressive way.

Not doing so now, but later, will condemn future efforts to falling into the category of "too little, too late." One can see that currently projects do exist. But in all, we must be sure to avoid what Dr. Seymour Papert of MIT called "excessively symbolic gestures bordering on criminal negligence." ■

Remarks by *Juan Manuel Santos*

Minister of Finance and Public Credit of Colombia

Gabriela Febres-Cordero de Moreno of the Colombian Embassy, Juan Manuel Santos, Enrique García

"It is time to tackle the linkage between the economic policies defended by the Washington Consensus and the need to translate those policies into social prosperity."

It's good to be back in Washington among so many friends I knew as vice-chairman of the Dialogue. I'm also delighted to be here along with OAS Secretary General, President Gaviria, my former boss, who took me away from a comfortable career in journalism and brought me into the stormy waters of public service—something for which I don't know if I should actually be grateful.

This is a good opportunity to bring up an issue which I know is a matter of great interest to all Latin American countries and that in one way or the other has been present in all of our discussions. It is time for us to tackle the issue of the linkage between the economic policies that are so strongly defended by the Washington Consensus—by the IMF, the international development banks, and particularly the capital markets, whom today seem to have the last word—and the need to translate these policies into social prosperity.

In the early 90s, thanks to President Gaviria, Colombia was one of the countries that advanced the most in the so-called first generation reforms. Unfortunately, the virtuous cycle that started with these changes was interrupted. As a consequence, our economic performance deteriorated and we fell into probably the worst recession ever. Colombia struggled out of economic stagnation and we entered into an extended fund facility agreement with the IMF to recover the confidence of the markets and the long-term viability of our economy.

In fact, in the recent past we have delivered every single reform we agreed to. We have met every single target that we set with the IMF, and we have fulfilled, step by step, all the measures that I announced to the markets in the midst of a very difficult economic and political environment.

The markets have recognized our efforts and have reacted accordingly. Fourteen months ago we had no access to the international capital markets. Today, we can proudly say that we are one of Wall Street's "darlings." Our spreads have had the best performance of any single country in Latin America and the best performance of all emerging markets in the world, with the sole exception of Russia.

We have also managed to regain a much needed stability of our main economic indicators: inflation is now at the lowest level in thirty years, we can say the same about interest rates, and our exchange rate—after it was allowed to float—has shown the least volatility in the region, with the exception of those countries whose currency is tied to the dollar. All these measures we have taken and the positive results they have yielded have allowed us to completely finance our external needs for this year. And in anticipation of our coming elections, with a proactive and prudent approach, we have also started to prefinance our needs for next year.

But economic stabilization per se is meaningless. Most of the countries in the region have undertaken similar kinds of reforms, with different results, and the truth is that Latin America as a whole, in social conditions, is facing a much harsher situation today than when this process started.

Academics, politicians, and most importantly, ordinary people, are concerned and want to know how can one translate economic stability into social prosperity—a challenge at which we have failed throughout the region. As Enrique García explained very well with facts and figures this morning.

We sometimes forget that one does not govern to reap the applause of Wall Street, although it is necessary, you govern to help the people, particularly the poorest and most disadvantaged.

Please do not take me wrong. In no way am I criticizing the need for economic stability and fiscal responsibility. In fact, there is no doubt that it is a necessary condition for growth and development, and this is one of the few topics where there is a consensus among all schools of thought, from neo-liberals to socialists. But unfortunately, in light of the facts, we can say that while the 80s was the lost decade in economic performance, the 90s will be remembered as the lost decade in social advancement in Latin America.

We can't afford to look back ten years from now, regretting that the first decade of the new millennium did not yield, once again, the expected results. For this reason I would like to bring two particular topics to your attention: first, the concept of good governance, and second, efficient resource allocation—two key elements that must be present to be able to convert economic stability into social prosperity.

The concept of good governance is sometimes seen as mere rhetoric. It is everything and nothing, and often too vague a concept. For my argument's sake, the definition of good governance that is most appropriate is the presence of solid and respected institutions working together toward common goals. The lack of this basic principle explains to a great extent our failure to deliver social prosperity. In fact, it has even complicated our economic adjustment process. Because it is a well known truth that those countries that are usually hit the hardest during times of difficulty are those with fragile social and political institutions. Why? Simply because it makes the required negotiations and consensus building much more difficult.

President Roosevelt, back when he was struggling out of the Depression, used a very descriptive metaphor to describe what I am trying to say, in relation to the need for having the institutions, and in this case the powers of any democracy, working in harmony to be effective. He said, "If three well-matched horses are put to the task of plowing a field where the going is heavy, and the team of three pull as one, the field will be plowed. If one horse lies down in the trenches or lunges off in another direction, the field will not be plowed." This is the governance we have.

Because Latin America has traditionally suffered from a culture of institutional conflict, a kind of non-declared war between the different powers that be, including of course the press, that makes long-term state policies so difficult to implement. The institutions in Latin America seem engaged in a sort of horse race where the success of one is based on subduing, weakening or destroying the other.

"We sometimes forget that one does not govern to reap the applause of Wall Street...you govern to help the people, particularly the poorest and most disadvantaged."

Harmony among institutions is paramount, not only in order to work together, but also as a prerequisite for guaranteeing citizens' respect and support for the institutions. All powers pulling together in the same direction implies that development policies and adjustment policies have a greater chance of succeeding.

For this purpose, institutions need to grow and adapt themselves to serve the people. The so-called second generation reforms should be more of an exercise in political reform and institutional strengthening than of economic remaking.

"The essence of economic policy is to enhance the well-being of society, and not just to show satisfactory macroeconomic indicators."

The essence of economic policy is to enhance the well-being of society, and not just to show satisfactory macroeconomic indicators. Commitment to fiscal reform and stabilization should thus be aimed at generating social prosperity for the people. It is as simple as that. And because economic growth is not enough, one of the keys to achieving this aim is the presence of an efficient social resource allocation, something that unfortunately has been almost nonexistent in our economic systems.

When faced with limited resources, anyone suggesting what governments should do must first be prepared to propose what can be sacrificed. In other words, should governments spend precious but scarce resources in power or mining companies, banks or industries, instead of investing in schools and hospitals which are in permanent short supply in our countries?

Because in the end what promotes better income distribution and social prosperity is more efficient resource allocation. So a major government responsibility lies in finding the best way to invest its limited resources in socially productive ventures. And of course transparency is crucial in this process.

Ladies and gentlemen, taking advantage of the institutions present today and what they represent, the financial muscle of the Andean Development Corporation, the political clout of the Organization of American States and the academic leverage and support of the Inter-American Dialogue, I'd like to suggest that in this globalized world we also need new rules that allow us to deliver social prosperity to our people.

As I said before, I am convinced that stabilization policies are a necessary condition for development. Unfortunately, the current design of world financial markets, including the multilateral institutions, puts an excessive emphasis on this framework, leaving aside the key issues I just described. By doing this, today's architecture leads to standardized types of adjustment policies during periods of crisis, pressuring recessions and discarding any type of self-generated development or mitigation policies. The international markets clearly discourage creativity and punish harshly those who dare to explore new avenues to ensure growth.

The current institutional arrangement is designed to allow counter-cyclical policies only in those countries with no financial dependence on international markets. That is the case of the major economies (the United States and Europe); these economies can stimulate internal demand during economic deceleration by loosening fiscal and monetary policies. In our case, we cannot. Middle income countries or emerging markets are restricted by international capital market conditions from adopting counter-cyclical economic policies. That's the big lesson left from all recent crises. We have our hands tied.

The only alternative designed by current market structures during times of turmoil is fiscal adjustment and monetary constraints, which deepens the recession, generates an increasingly difficult environment for reforms, and diminishes credibility in the markets. And if the standard procedures are not undertaken, they will be punished with market closures, thus limiting the possibility to advance in the adjustments and increasing their cost.

Limited access to capital markets delays any reform process, with all the implications thereof. So, in a way, the current system is self destructive. The efforts made by any country in order to reach the adequate macroeconomic standards defined by the system could easily be destroyed by the same market conditions during turmoil.

This is not fair nor coherent with the true meaning of stabilization policies. Today's architecture has a big stick, but no carrot for those who are judiciously doing their job.

The new rules should consider mechanisms to recover the legitimacy of countercyclical policies during market turbulence and recessions. And I recommend this for the sake of the credibility of adjustment policies.

We need new rules that protect those countries that are doing what's supposed to be done, and limit their exposure to what sometimes could be called the irrational behavior of the markets.

Let me conclude by saying that our hemisphere today is advancing in a process of trade liberalization and economic integration leading towards the establishment of the Free Trade Area of the Americas. But all integration efforts will be futile if we're not able to meet the challenge of devising sound and sustainable development strategies that take into consideration the particularities both of the region as a whole as well as of each of the different countries.

Peter Hakim, PAHO Director George Alleyne

Ambassador Marlene Fernández of Bolivia, Luiz Felipe Lampreia

Evidence shows that the countries that have succeeded in the postwar era have been those that have been able to design a domestic investment strategy to boost growth and who have had the appropriate institutions to react to external shocks. Hence, governments should concentrate on the fundamental economic growth factors—investment, macroeconomic stability, human resources and good governance. In other words, in our region we must find a way to make stabilization policies conducive to economic growth and social prosperity. If we achieve that, we will not only win for ourselves the recognition of Wall Street, but the loyalty of our people to democracy and free markets. ■

"Today's [macroeconomic] architecture has a big stick, but no carrot for those who are judiciously doing their job."

Gustavo Fernández Saavedra, Michael Shifter

“Perhaps the single thread that connects all of the Andean countries is weak democratic institutions, and a striking lack of public confidence in such institutions.”

Political Trends in the Andean Region: An Uncertain Outlook

By Michael Shifter

Even within the context of a generally gloomy political landscape that one finds throughout much of Latin America today, the Andean countries stand out as particularly unsettled, and unsettling. Venezuela, Colombia, Ecuador, Peru and Bolivia confront significant and complicated challenges. At issue is their ability to govern themselves effectively.

From a distance it may be tempting to refer to an Andean “virus” or some sort of “contagion.” But a more careful inspection reveals that each country within the geographic cluster offers markedly distinct characteristics. Generalizations about the Andes should, as a rule, be eschewed, and made only with extreme caution.

Perhaps the single thread that connects all of the Andean countries is weak democratic institutions, and a striking lack of public confidence in such institutions. The data for the 2001 Latin American Barometer, a comparative public opinion survey that includes some 17 countries in the region, are especially sobering (see annex attached). They show a disturbingly sharp drop in support for democracy as the preferred form of government in many countries, and a closer, more direct correlation than had previously been reported between faith in democratic institutions and economic performance. The difficult global economic picture, the downturn in the U.S. economy, and the severe crises in such countries as Argentina, have a significant and negative impact on the capacity of the Andean countries to perform well politically and have only contributed to a largely pessimistic outlook.

Colombia

Colombia is the largest Andean country, with a population of more than 40 million, and the one that has provoked widest regional concern. No other country in the hemisphere is enduring such a wrenching and profound internal conflict, and is wracked with such pervasive insecurity and lawlessness, dominated by drug-fueled criminality. More than half of all the world's kidnapping take place in Colombia. The most dramatic measures of the continued deterioration can be seen in the sheer movement of Colombians. The country has the third largest internally displaced population in the world—some estimates put the figure at nearly 2 million—and over the past five years some 1 million Colombians have emigrated. From all indications, the exodus continues unabated.

To be sure, to a great extent the decision to leave Colombia can be attributed to the country's serious economic conditions, with an unemployment rate of some 20 percent. But Colombia's economic decline and stagnation are not unrelated to its spiral of violence; these phenomena are no doubt intimately intertwined. In a climate of such distress, the government led by Andres Pastrana, now in its final year, has been unable to make much progress on its chief priority—moving the country closer to an enduring peace. The Colombian president has a low level of public approval, and has struggled to forge a consensus behind a coherent strategy to bring the conflict to an end. Despite his audacious moves and admirable intentions, President Pastrana's approach has failed to yield positive results.

With presidential elections scheduled for May 2002, Colombia is already witnessing a vigorous campaign, with several candidates in high gear. Major contenders include Horacio Serpa of the Liberal Party and independent candidate Noemi Sanin, both of whom ran in the previous round in 1998. Alvaro Uribe, former governor of Antioquia, has recently been rising in public opinion polls. Not surprisingly, his hard-line approach to the country's conflict increasingly appeals to a public frustrated and fed up with relentless violence. The country's political parties enjoy scant legitimacy and, as Colombian analyst Fernando Cepeda has often pointed out, corruption penetrates the farthest reaches of the society, especially the judiciary but also encompassing the private sector and civil society. Virtually no realm has remained unaffected.

As a measure of the despair felt by many sectors of Colombian society, the country's armed forces have recently seen a rise in public support and approval. A new national security law gives the military special powers to combat the insurgents, and the country's leading economic and business associations paid the armed forces a special tribute in August. But human rights groups rightly warn about the risks of granting such powers in light of the Colombian military's troubling record of abuses. And analysts wisely urge greater attention to the task of strengthening democratic, civilian authorities.

Indeed, at the same time that Colombia has provoked the highest level of regional concern, the country also continues to display ample and impressive democratic assets and resources. Despite unrelenting guerrilla and paramilitary violence—and a climate marked by constant threats—few doubt that presidential elections will indeed take place next May. Moreover, though the executive and congress are controlled by different parties, in some policy areas both branches of government have been able to work together effectively. A recent illustration is a successful tax reform measure that redressed some of the fiscal imbalances that accompanied the 1991 Constitution.

"As a measure of the despair felt by many sectors of Colombian society, the armed forces have seen a rise in public support and approval."

Though Colombia still faces a formidable policy agenda (including labor reform), it has the democratic practice and tradition to produce positive change. Given the country's enormous strains and stresses, however, the core challenge remains forging effective political leadership and that sets a coherent course, grounded by a national consensus.

"There may be few grounds to question Chávez's legitimacy as Venezuela's democratically-elected leader."

Ecuador

Of all of the countries that border Colombia, Ecuador is perhaps the most vulnerable to the many "spillover" effects generated by the crisis. Although such effects are hardly new, it is undeniable that, with the onset of the Plan Colombia policy, Ecuador has seen markedly higher numbers of refugees and even expanding, though still limited, coca production.

Ecuador's vulnerability to Colombia's difficulties is substantially compounded by relatively weak governance structures. As former Ecuadoran president Osvaldo Hurtado and political analyst Simon Pachano have both argued, the country features a highly fragmented political party system, which makes it very difficult to pursue coherent policies backed by a national consensus. Indeed, Ecuador's principal political forces are region-based, and often pit the coastal politics dominated by Guayaquil against Quito, centered in the Andes. Few believe that these tensions and frictions are likely to be resolved in the short term.

Such profound governance problems have hardly contributed to greater political stability in Ecuador. Indeed, over the last four years the country has seen four presidents. (The average tenure of the finance ministry over the same period has been less than five months.) In February 1997, the congress removed one president (Abdala Bucaram) and, in January 2000, the military deposed another (Jamil Mahuad). Although the interruption in constitutional government was, to be sure, short-lived—and ultimately had a happy result—the January 2000 coup marked the first time in a quarter of a century in South America that a democratically-elected leader had been overthrown by the military. The incident, moreover, underscored the disproportionate role played by the military in Ecuador's political affairs. The military's extensive involvement with economic interests is also a matter of considerable concern. Although President Gustavo Noboa has successfully managed to stabilize Ecuador's political situation in 2001—and few are predicting a disruption of presidential elections scheduled for next year—it appears unlikely that the difficult civil-military question will be adequately worked out any time soon.

In the January 2000 coup, mid-level military officers had joined forces with the country's indigenous groups—in CONAI, Ecuador has the most significant and politically powerful indigenous organization in all of Latin America—to demonstrate against the country's crisis conditions. Although such an alliance was fleeting, Ecuador's indigenous groups and other organized forces continue to criticize the dollarization of the country's economy (adopted weeks before the January 2000 coup) and to oppose "neoliberal policies" which they see as being largely responsible for acute social conditions. Dollarization may have stabilized the economy for the time being, but the country's marked institutional fragility and deep social and economic divisions presage continuing unrest and will no doubt pose formidable governance challenges in Ecuador for many years.

Venezuela

Governance is similarly a critical question in Venezuela, where President Hugo Chávez, now in office for two and a half years, has posed the sharpest challenge to the presumed consensus about democracy many observers believed had taken hold in the early 1990s in Latin America. There may be few grounds to question Chávez's legitimacy as Venezuela's democratically-elected leader; he has, no doubt, presided over a series of free elections. There are, however, serious concerns about the extent to which he embraces such notions as "checks and balances" and "rule of law," notions closely associated with "representative democracy." Chávez often proudly proclaims an alternative idea, one he calls "participatory democracy." The contending concepts proved to be the main source of controversy concerning a new "democratic charter" of the Organization of American States, that will be considered in Lima, Peru in a special session on September 10.

Political scientist Michael Coppedge has shed considerable light on the important distinction between what he calls "liberal democracy" on the one hand, and "popular sovereignty" on the other. Coppedge sees Chávez as embracing "popular sovereignty," quite simply the "idea that a government should do what most citizens want it to do." While this is a valued aspect in all true democracies, it is often tempered by "liberalism," which puts limits on the sovereignty of a popular majority. As Coppedge argues, "Liberal institutions can be thought of as a kind of democracy insurance policy. Citizens pay premiums in the present, in the form of sacrificing some of the government's representativeness and immediate responsiveness to their wishes. But these premiums purchase assurance that democracy will not fall below some minimal level in the future."

In this context, Venezuela's politics under President Chávez are ominous. Under a new constitution—perhaps the principal accomplishment of his administration to date—Chávez has proceeded to concentrate power systematically. He has attempted to transform Venezuela's political system along Bolivarian lines, characterized by a marked disdain for political parties—not only the two traditional ones, now in disarray—and independent democratic institutions, and the bolstering of a more politicized military. He has evinced little interest even in constructing his own political party. There is virtually no political opposition to speak of today in Venezuela; the fresh, promising political forces emerging lack national scope.

Lourdes Flores Nano

Moreover, proceeding in part by design and in part by improvisation, Chávez has leveled attacks against the media, unions, and other key sectors of Venezuelan civil society. In its latest report, the special rapporteur of freedom of expression of the Organization of American States sharply criticized the Chávez government for its treatment of the press.

Though the charismatic leader remains personally popular—sustained to date by scathing, unrelenting critiques against an old, discredited political order, not to mention relatively favorable oil prices—recent public opinion polls point to declining support for his government. (According to the Latin American Barometer survey, however, support for democracy in Venezuela remains reasonably steady, perhaps reflecting the fact that most Venezuelans continue to pin their hopes on Chávez.) Yet, from all accounts, Chávez's political experiment has so far failed to deal effectively with the fundamental problems of unemployment and crime that concern most Venezuelans. Severe governability problems persist, and there have been mounting charges of corruption. Venezuelan politics is highly polarized, with a wide rift between Chávez and his followers on the one hand, and the country's entrepreneurial and managerial sector—whose role is essential in the long run to effective governance—on the other.

Relations between Venezuela and Colombia since Chávez became president have been noticeably on edge. Tension between the countries is troubling under normal circumstances, but even more so in light of the deterioration in Colombia and the acute governance problems in Venezuela.

> **"In the 1990s, Fujimori (with Montesinos) presided over a decade of "anti-politics.""**

Peru

Venezuela is not, however, the only country in the Andean community that has seen its political parties implode. Something similar happened in Peru in the late 1980s, which paved the way for the surprising 1990 election of Alberto Fujimori, the product or beneficiary of the country's political and economic disorder. In the 1990s, Fujimori (together, of course, with his national security chief Vladimiro Montesinos) presided over a decade of what Peruvian political analyst Carlos Ivan Degregori has described as "anti-politics." Rule was based mainly on direct support from the citizens, with little regard for democratic institutions and the habits of dialogue, negotiation and consensus-building. Despite some undeniable achievements in the economic and security areas, such a model ultimately proved unsustainable and led to what is now known to have been unimaginable levels of corruption. In November 2000, the regime experienced a dramatic meltdown.

Alejandro Toledo, in office since July 28 of this year, faces a formidable agenda, centered chiefly on constructing Peru's institutions—severely battered first by insurgent violence and chaos, then by corruption and autocratic rule. Toledo is seeking to build on the impressive accomplishments made by interim president Valentín Paniagua in such areas as civil-military relations, judicial reform, and freedom of the press. Most dramatic, and heartening, was the vast improvement in the country's electoral system, within a short period of time. Despite Toledo's own lack of executive and political experience, his tenacious defiance of the Fujimori regime and his remarkable personal story and indigenous background are major assets that can be of enormous help in moving Peru towards greater reconciliation.

Still, Peru's governance problems are deep and manifold. Its institutions are in bad shape, and its citizens, understandably, exhibit low confidence in political leaders, having been betrayed so many times. The country has been experiencing a recession for the past three years, and social demands, pressures, and expectations have been mounting and could well translate into heightened frustration. Further, Toledo, like Fujimori, is a consummate "outsider," and may have little interest in building a coherent political party out of his heterogeneous Perú Posible grouping. With 45 of 120 seats in congress, he could well have difficulty getting through significant reform legislation that the country very much needs. Toledo's skills in building effective coalitions, and exercising political leadership, will doubtless be put to a severe test.

Nonetheless, as the Latin American Barometer reveals, Peru enjoys a relatively high level of support for democracy (62 percent). The figure exceeds those in other Andean countries, and even compares favorably with Latin American countries with stronger democratic traditions and cultures. This can be interpreted as a repudiation of the Fujimori regime, and its attendant, unprecedented corruption. Toledo has placed high priority in tackling this problem (along with poverty), though the experience in other countries in the region suggests that the task will be far from easy.

Bolivia

Bolivia, too, offers a measure of hope within an otherwise murky political outlook throughout much of the Andes. Just over a week after Peru got a new president in Alejandro Toledo, Bolivia did as well, as Jorge Quiroga, then vice president, assumed the presidency as a result of Hugo Banzer's inability to remain in office because of illness.

With presidential elections scheduled for 2002 (and Quiroga not allowed to run according to the Bolivian constitution), the new president will seek to put the country on a sound economic and political course. Though the first years of the Banzer administration were relatively tranquil (especially by current standards in the Andean region), more recently there have been mounting charges and allegations of corruption. Moreover, Bolivia has witnessed mounting social unrest, fueled to a large degree by frustrated coca growers and peasant organizations that have been negatively affected by the country's economic policies. Quiroga's task will be far from easy.

It appears that the main contenders for the presidency next time around are in fact two former presidents. One of the main governance challenges of the following administration will be to combine effective policies with a democratic style of politics, characterized by coalition-building and constant negotiation. As Eduardo Gamarra has argued, such a style had previously marked Bolivian politics, and in fact had set it apart from other Andean (and Latin American) countries.

Indeed, Bolivia's challenge is the same faced by other Andean governments: how to effectively manage the tension or tradeoff between efficacy and performance on the one hand, and honest, clean politics on the other. Polling data consistently show that citizens want, and are demanding, both. Whether the region's political leadership will be able to respond to the broad public challenge is a major question.

Concluding thoughts

Despite the sobering polling data reflected in the recent Latin American Barometer results, there is virtually no evidence of support for any non-democratic alternatives. This is especially heartening and noteworthy in such countries as Bolivia, which has long been associated with military takeovers and political instability. In fact, three of the five Andean countries plan to hold presidential elections next year, in 2002, and few worry that they will proceed smoothly. No doubt this is a measure of significant progress that should be recognized and celebrated. But it also means that elected political leaders will be put to a severe test.

Also encouraging in the Andean region, and more widely throughout much of Latin America, is the increasingly important political role performed by groups that had previously been excluded from and marginal to the political system. The new constitutions in various countries have helped bring about such positive change. Indigenous groups have substantially increased their participation in Ecuador and Bolivia. In fact, Bolivia's previous vice president was indigenous, and of course Toledo is the first self-identified, proud president of indigenous background in Peru's history. Advances, too, have been notable in the participation of women in the political process throughout the region. In the Peruvian presidential elections earlier this year, one of the principal contenders was a woman, the first time ever. And in Colombia one of the three leading candidates for next May's presidential contest is a woman as well.

Miguel Rodríguez Mendoza, José Manuel Salazar-Xirinachs

> **"Advances have been notable in the participation of indigenous groups and women in the political process throughout the Andean region."**

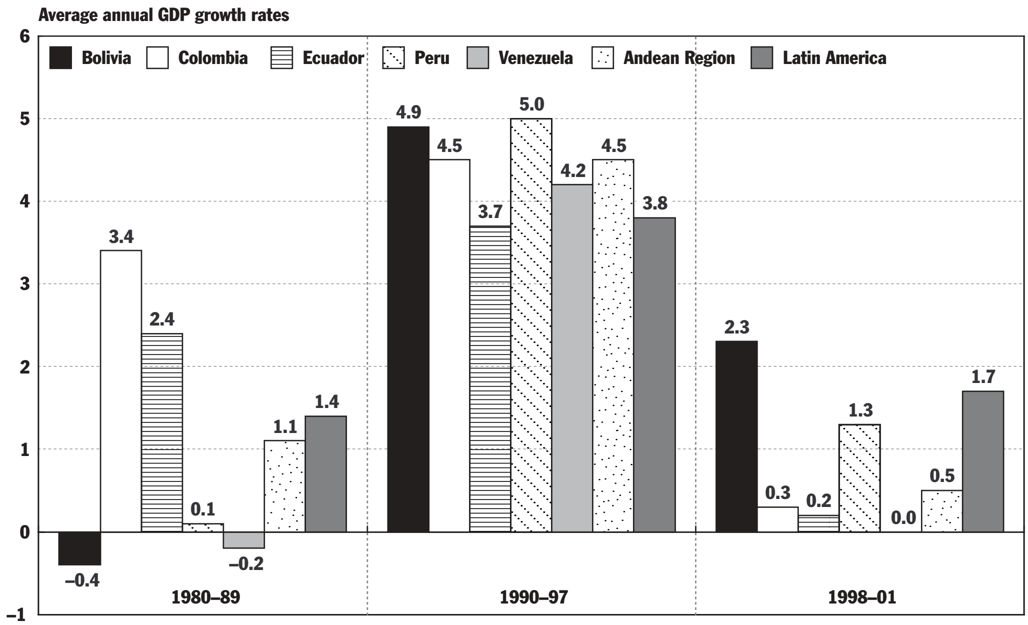
Still, despite such signs of progress, it would be a stretch, and far from credible, to characterize the state of democratic governance in the Andean countries as very healthy. The problems are profound, and need to be tackled by responsible political leaders committed to constructing both effective and accountable institutions. Although the problems, and thus the solutions, come from the region itself, external forces and actors can and should be of considerable help in this effort.

The United States, particularly, might reframe its policy toward the region by according higher priority and greater weight to questions of democratic governance. To be sure, the United States has a variety of interests in the Andean countries, drugs being the most prominent among them. But it is hard to see how much progress can be made in dealing with the shared drug problem—or in advancing economic interests—without effective and honest politics. Though this is a task that will need to be assumed principally by Colombian, Ecuadoran, Venezuelan, Peruvian and Bolivian leaders, U.S. leaders can also learn from past mistakes and seek to be of greater help in pursuing such a challenge. ■

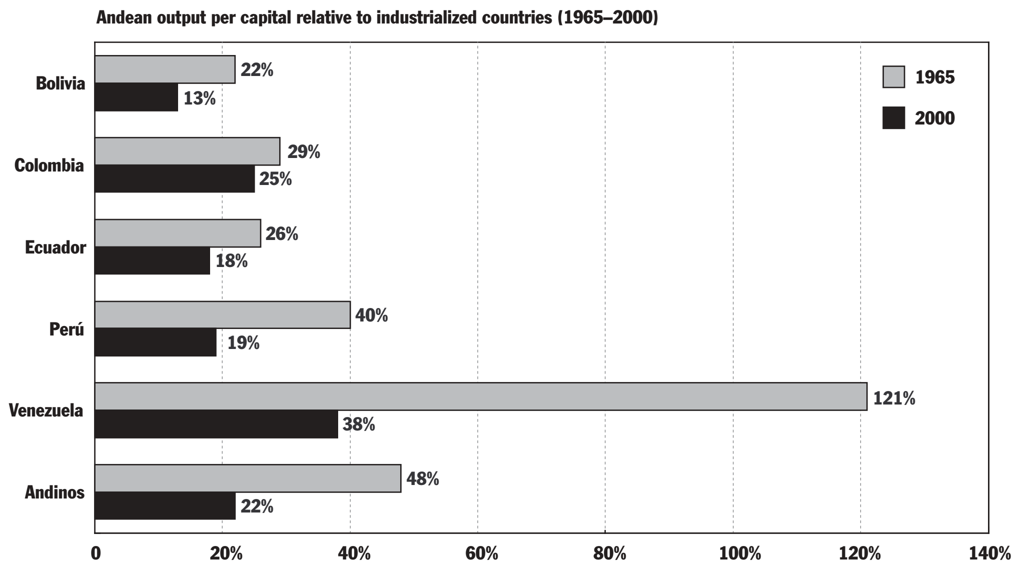
Economic Outlook:
Short and Medium Term Challenges

By Fidel Jaramillo B.

New millennium begins wih old skepticism

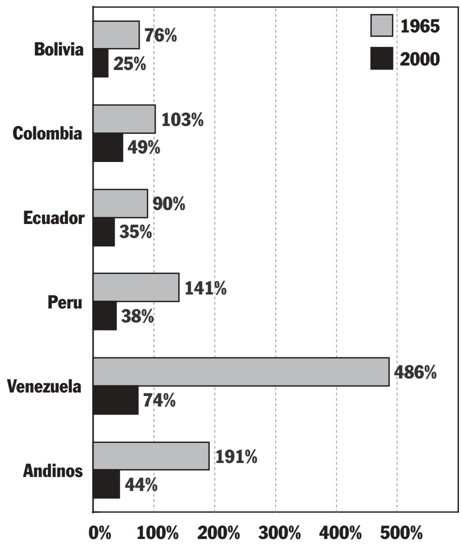


Region increased lag with advanced economies…

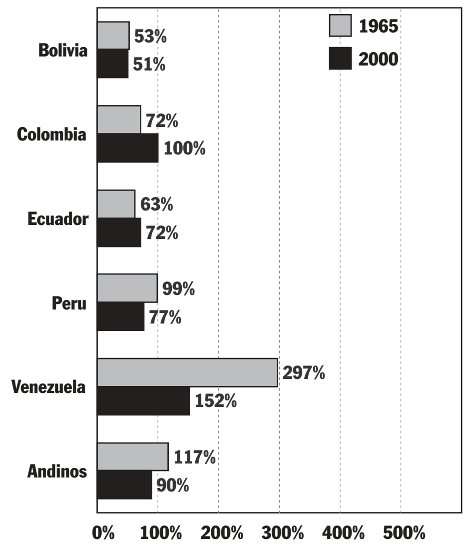


…and also with other developing countries

Andean output per capital relative to S.E. Asia…

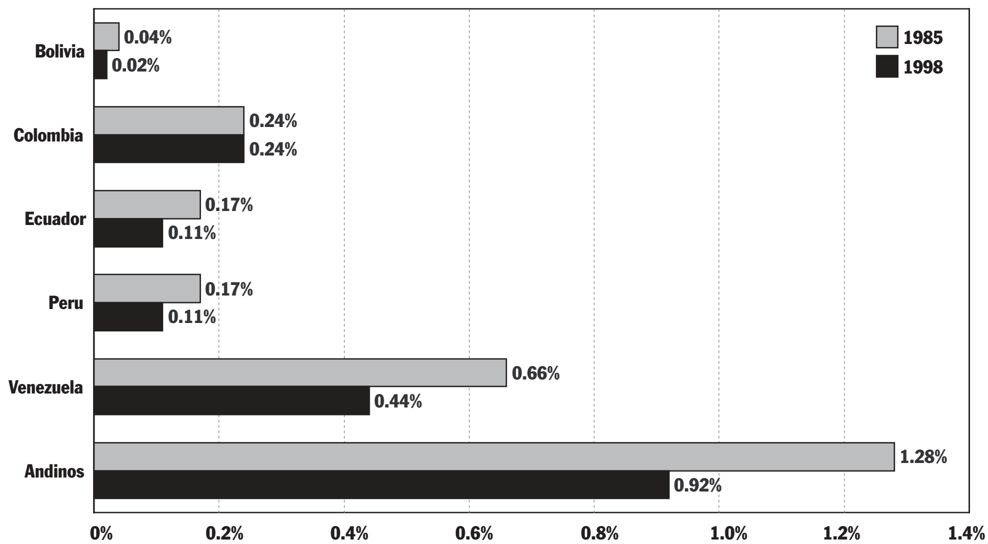


…and relative to the rest of Latin America

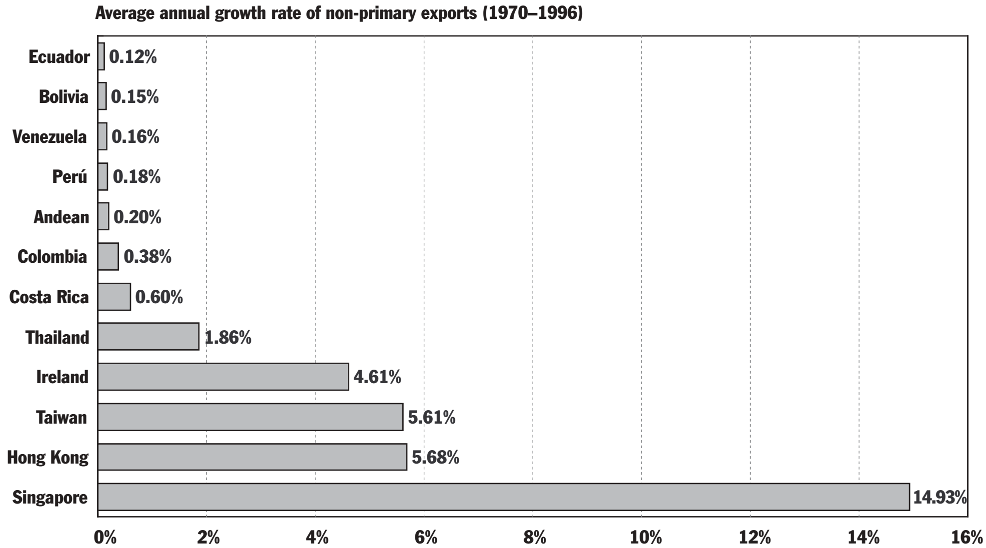


Export performance has been poor…

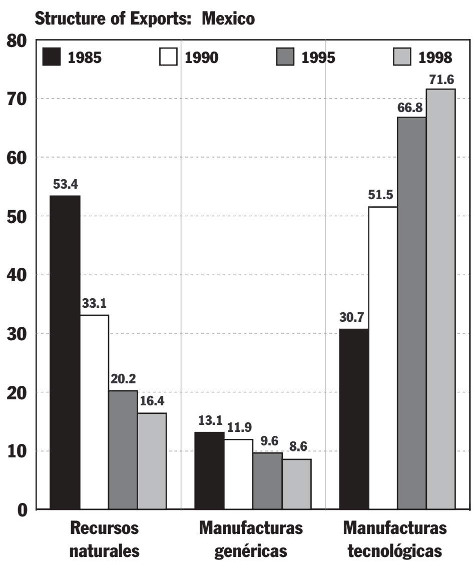
Market shares 1985 and 1998

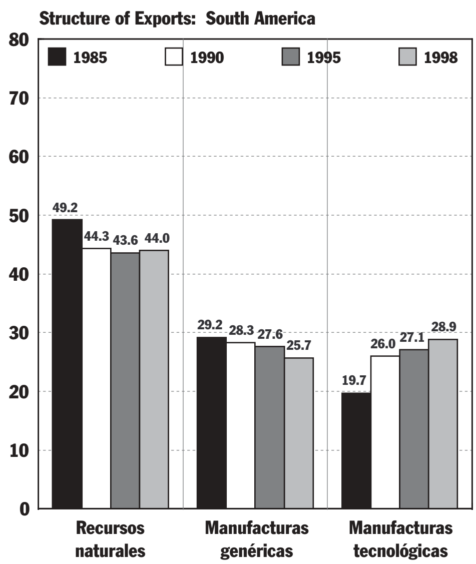


…in particular for non primary goods

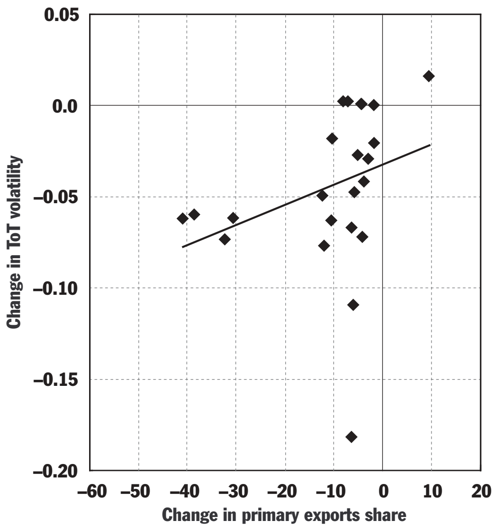


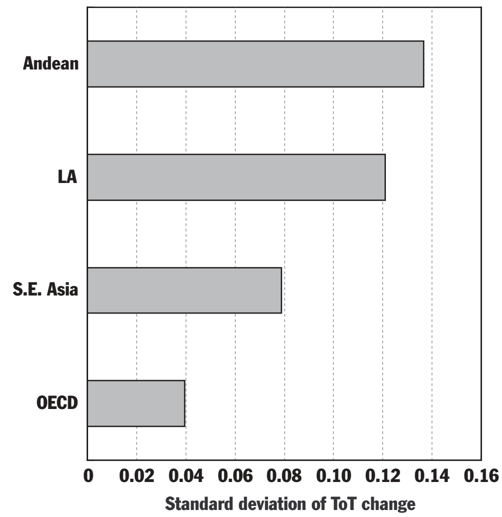
Exports are still based on natural resources, especially in South America



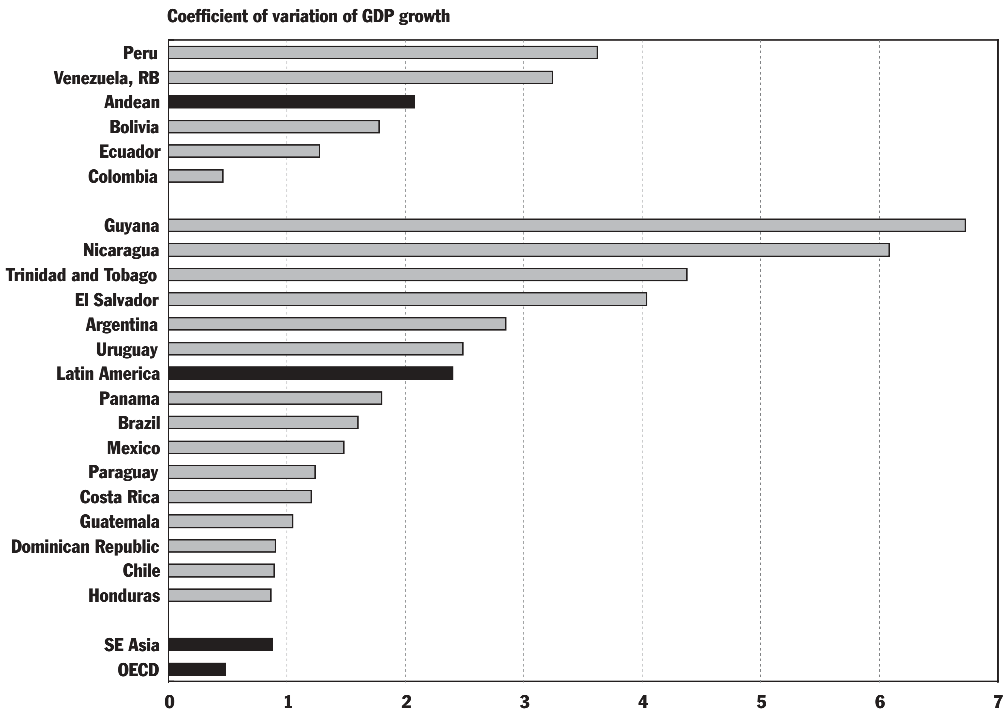


…which is associated with terms of trade volatility

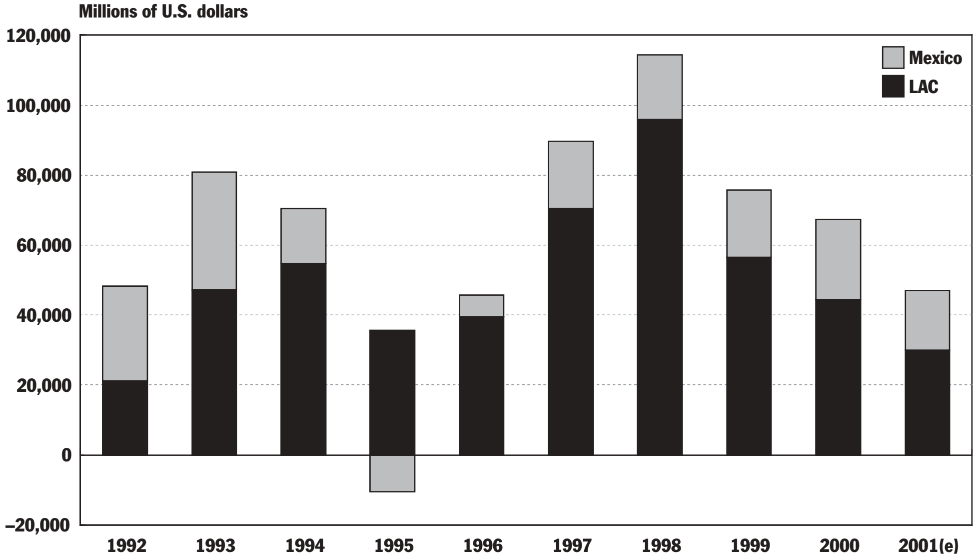




…and macroeconomic volatility

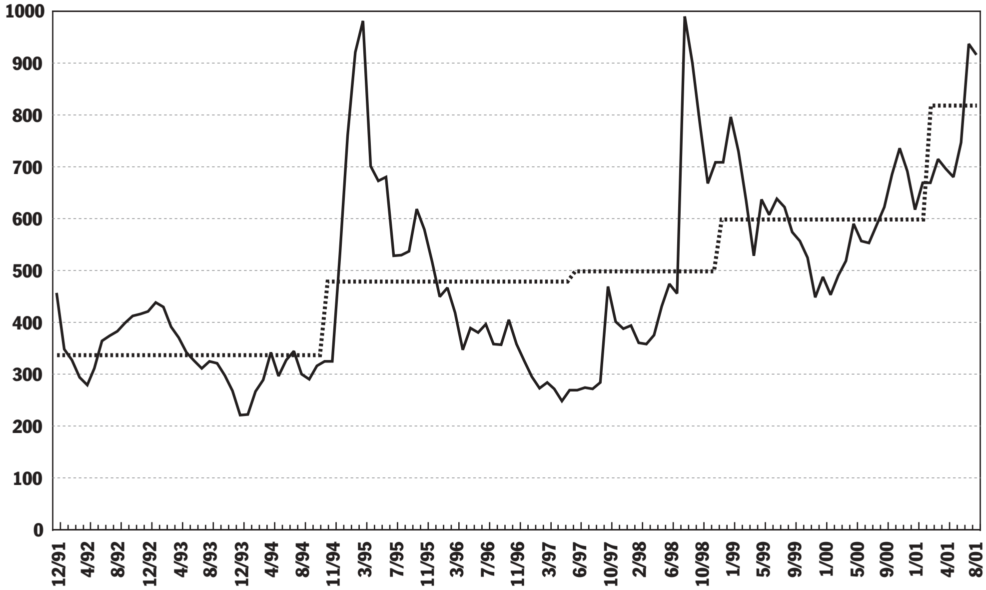


External capital flows are scarce, selective…

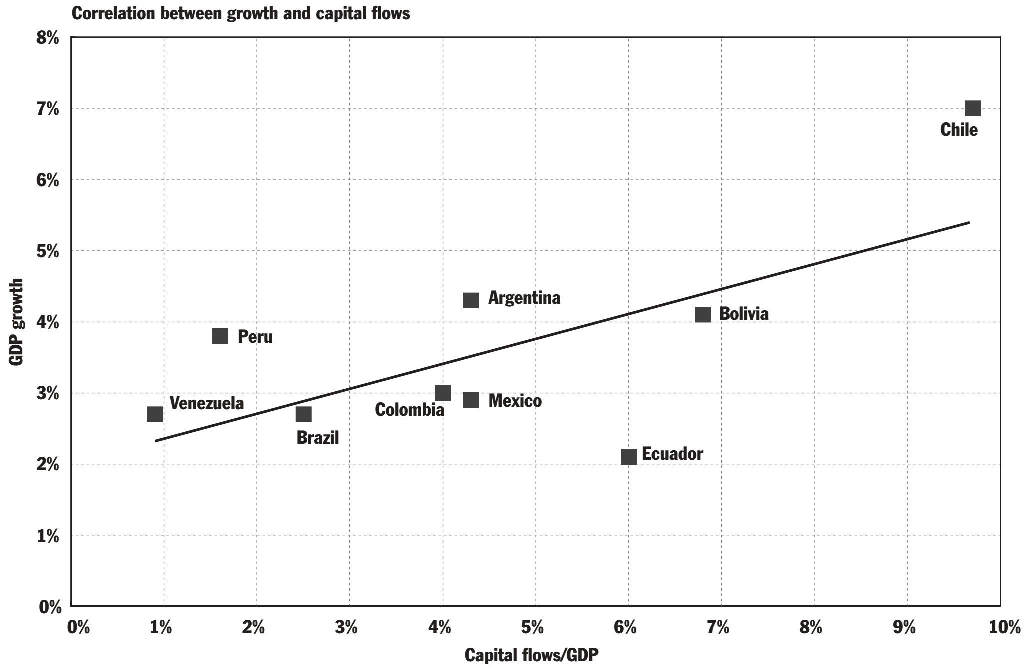


Fuente: Bancos Centrales

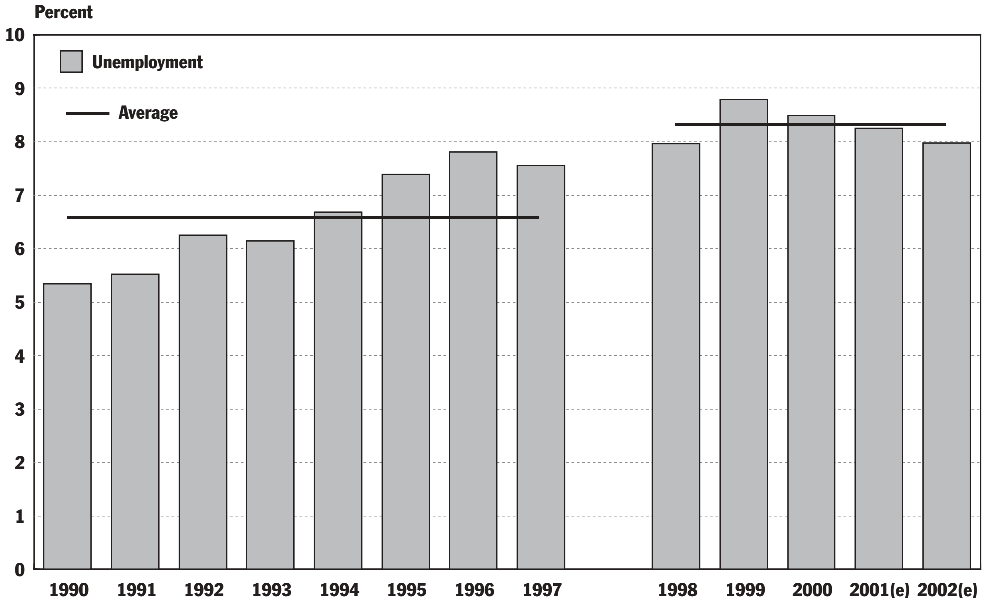
…and more expensive after every international crisis



Consequences for growth are negative…

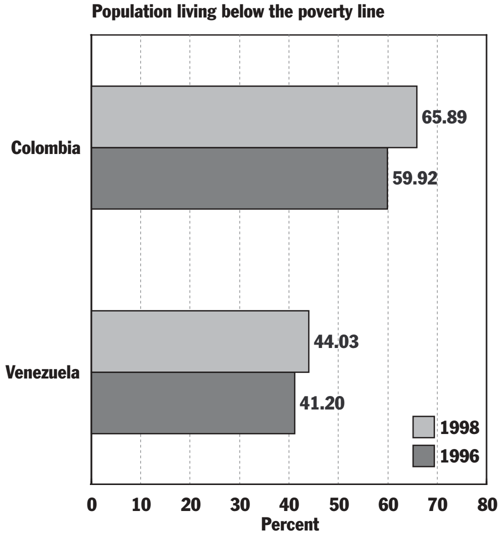


…with persistent effect on unemployment



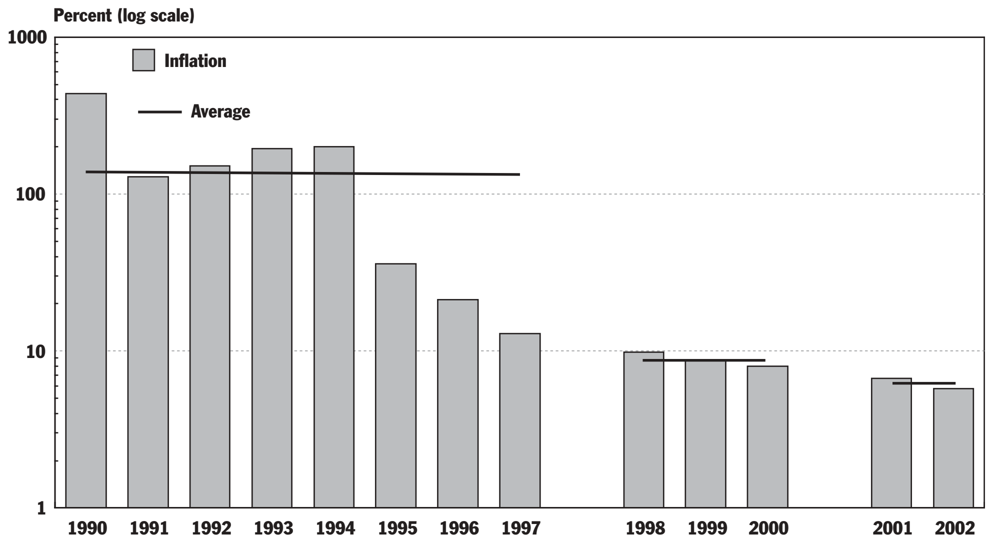
Source: World Bank (1998) and CAF estimates

…and worst impact on poverty

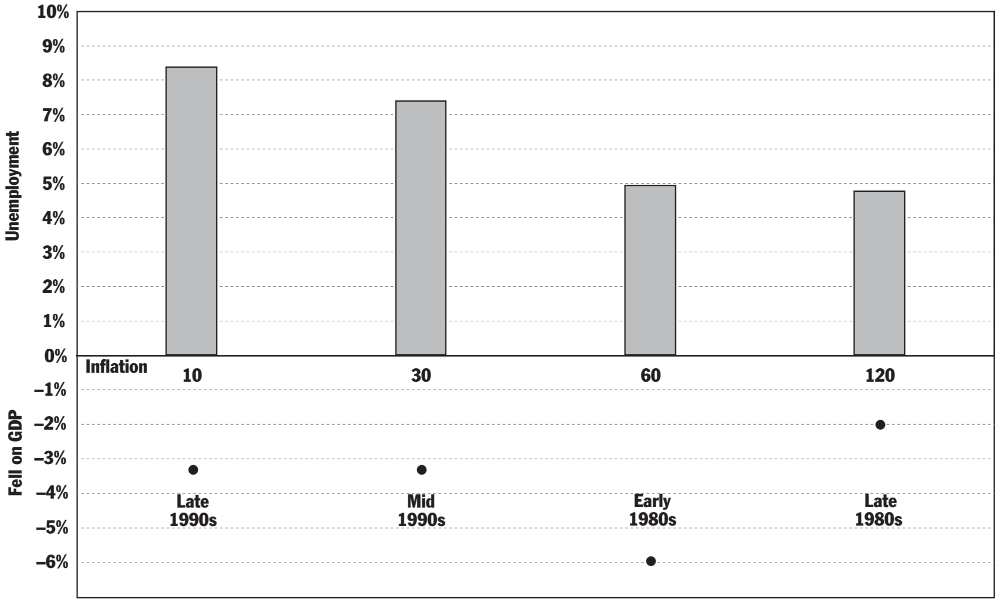


- Lack of instruments to smooth negative shocks (assets and access to credit markets)
- Global markets for skilled labor vs. local markets for non-skilled
- Irreversible effects from school drop-outs.
- Less social investment from the part of the governments.

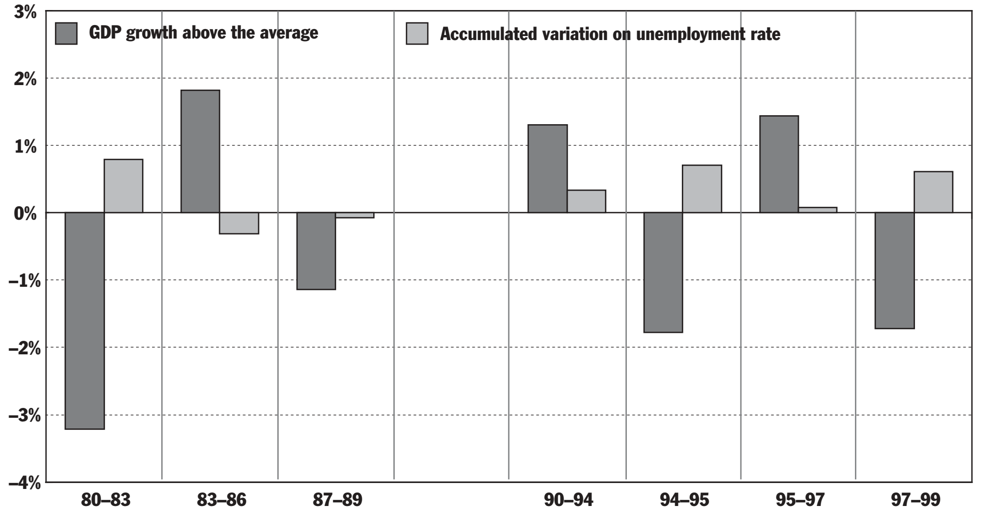
First recent crisis with low inflation…



…makes transparent labor market imperfections and weak competitiveness



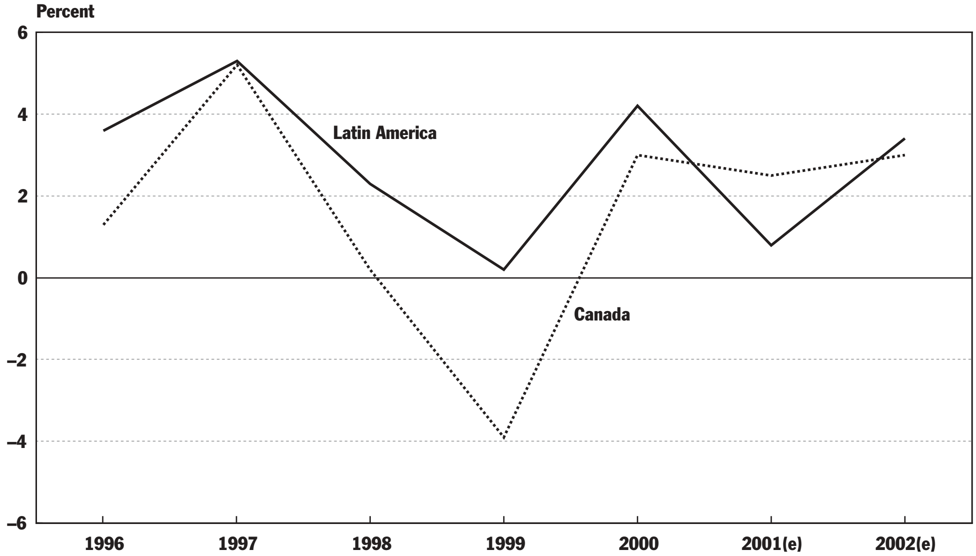
Employment and poverty are less responsive to growth



What to expect in the near future?

- International financial volatility.
- Slower economic growth in the world.
- Reform fatigue due to worse than expected results from them.
- Less assets and willingness to privatize.
- Few degrees of freedom to do aggregate demand policy.
- Scarcer, and more volatile and expensive capital flows. FDI is becoming more selective.
- Critical social situation.

GDP Growth



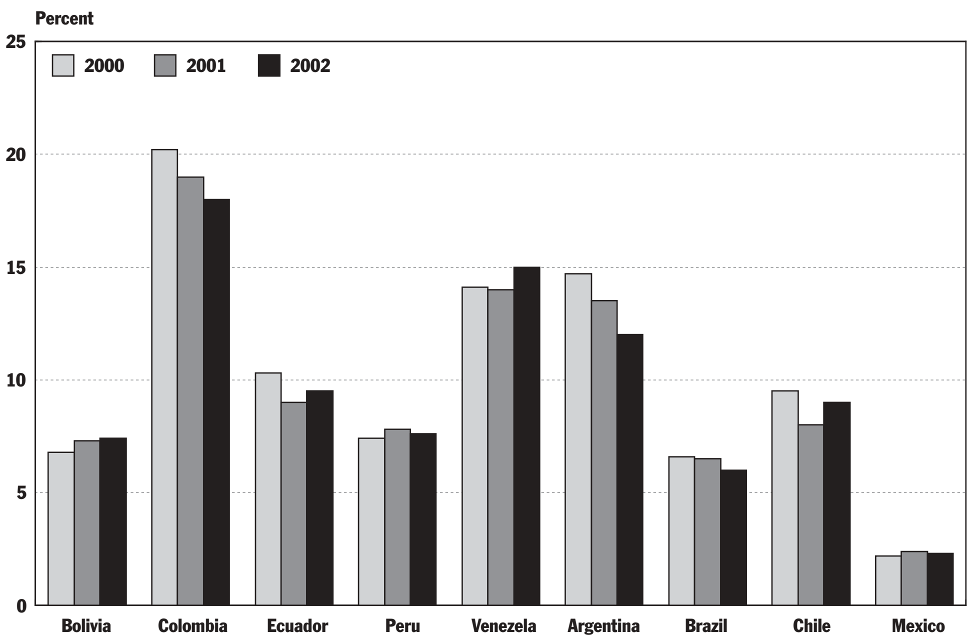
GDP growth, Andean region + Canada

Country	1998	1999	2000	2001	2002
Bolivia	4.8	0.6	2.4	0.0	2.5
Colombia	0.4	–4.3	2.8	2.2	2.7
Ecuador	0.4	–7.3	2.3	5.7	4.0
Peru	–0.4	1.4	3.1	0.5	4.0
Venezuela	–0.1	–6.1	3.2	3.5	2.5
Canada	0.2	–3.9	3.0	2.5	3.0

GDP growth, selected Latin American countries

Country	1998	1999	2000	2001	2002
Argentina	3.9	–3.1	–0.5	–1.5	2.5
Brazil	–0.1	1.0	4.2	1.5	3.2
Chile	3.4	–1.2	5.4	3.5	5.0
Mexico	4.9	3.5	6.9	0.8	4.1
Latin America	2.3	0.2	4.2	0.8	3.4

Unemployment

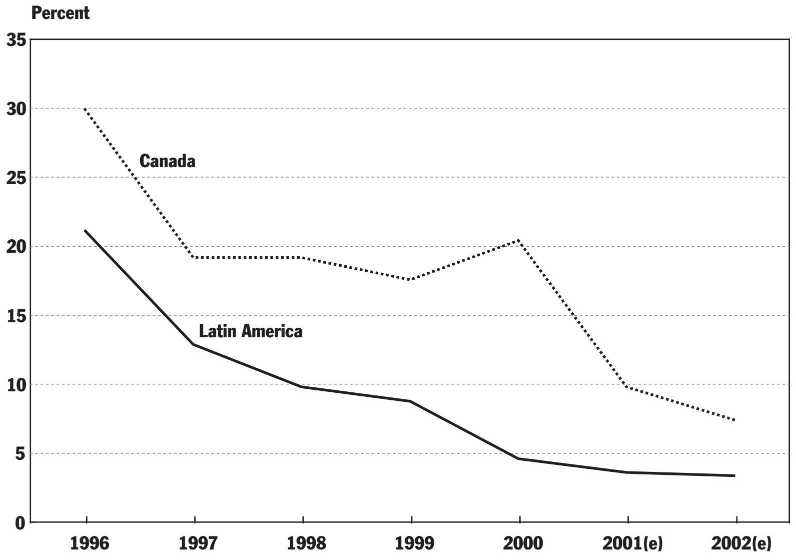


Growth with limited access to foreign financing: is it good or bad?

According to market analysts, the region will suffer a financing bottleneck in the near future:

> **"The Argentine crisis delivered a powerful blow against the emerging markets asset class. Some investors consider it to be a mortal blow, even if Argentina does not restructure its debt. We are not as grim. Nevertheless, the asset class will need a long time to recover."**
> **—BCP Securities**

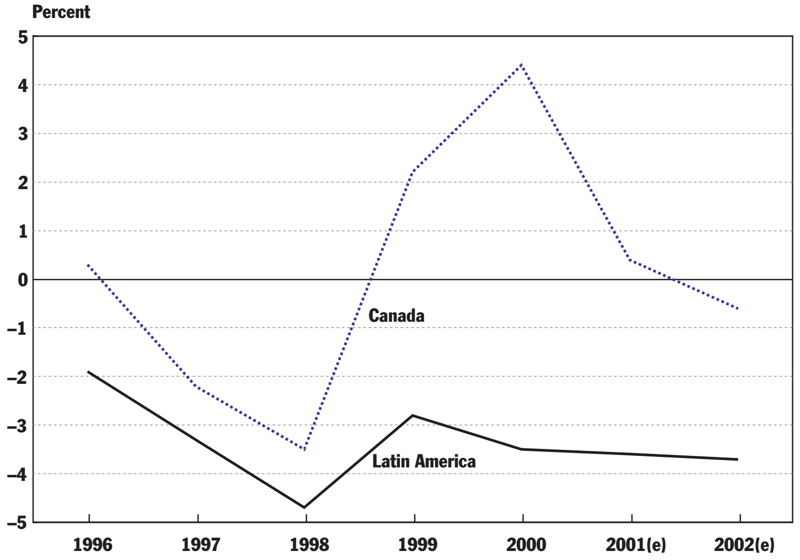
Inflation



Country	1998	1999	2000	2001	2002
Bolivia	4.4	3.1	3.4	2.5	3.0
Colombia	16.7	9.2	8.8	8.0	7.5
Ecuador	43.4	60.7	91.0	23.4	8.7
Peru	6.0	3.7	3.7	2.5	2.3
Venezuela	29.9	20.0	13.4	13.9	16.0
Canada	19.2	17.6	20.4	9.8	7.4

Country	1998	1999	2000	2001	2002
Argentina	0.7	–1.8	–0.7	–0.5	0.5
Brazil	1.7	8.9	6.0	6.5	4.5
Chile	4.7	2.3	4.5	2.5	3.0
Mexico	18.6	12.3	9.0	5.9	5.5
Latin America	9.8	8.8	4.6	3.6	3.4

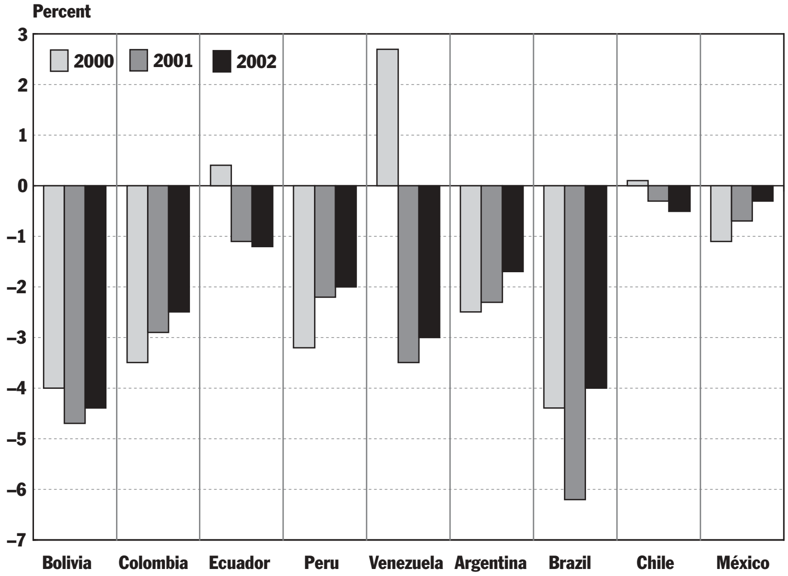
Current account



Country	1998	1999	2000	2001	2002
Bolivia	–8.0	– 6.7	–5.5	–4.4	–3.6
Colombia	–5.4	–0.1	0.0	–2.5	–3.1
Ecuador	–11.0	6.9	9.0	–3.4	–3.5
Peru	–6.6	–3.5	–3.0	–2.4	–2.4
Venezuela	–3.4	3.6	11.1	4.6	2.5
Canada	–3.5	2.2	4.4	0.4	–0.6

Country	1998	1999	2000	2001	2002
Argentina	–4.8	–4.3	–3.3	–3.0	–3.3
Brazil	–4.3	–4.5	–4.2	–4.4	–4.2
Chile	–5.7	–0.1	–1.0	–1.3	–1.4
Mexico	–3.8	–2.9	–3.1	–3.4	–3.8
Latin America	–4.7	–2.8	–3.5	–3.6	–3.7

Fiscal deficit



Country	1998	1999	2000	2001	2002
Bolivia	–4.0	– 3.9	–4.0	–4.7	–4.4
Colombia	–3.9	–5.8	–3.5	–2.9	–2.5
Ecuador	–6.0	–5.9	0.4	–1.1	–1.2
Peru	–0.8	–3.0	–3.2	–2.2	–2.0
Venezuela	–5.8	–0.6	2.7	–3.5	–3.0
Canada	–4.1	–3.2	–0.6	–3.0	–2.6

Country	1998	1999	2000	2001	2002
Argentina	–1.4	–2.6	–2.5	–2.3	–1.7
Brazil	–8.0	–9.5	–4.4	–6.2	–4.0
Chile	–0.7	–1.6	–1.0	–1.3	–1.4
Mexico	–1.2	–1.1	–1.1	–0.7	–0.3

Country profile

Bolivia

Economic Indicators	2000	2001(e)	2002(e)
Real GDP growth	2.4	0.0	2.5
Inflation (%)	3.4	2.5	3.0
Current account (%GDP)	–5.5	–4.4	–3.6
Fiscal balance (%GDP)	–4.0	–4.7	–4.4
External debt (%GDP)	53.6	57.0	58.4

- The inauguration of the new government of President Quiroga has sent positive signals to the different sectors of the society, significantly reducing the amounting social tension.
- The government outlay its economic, social and political plan aimed at maintaining social peace, guaranteeing a clean general election in 2002, and detaining economic contraction.
- The Bolivian economy will still experience the effects of the economic crisis in 2001, characterized by slow economic growth, low inflation, and a large contraction of domestic credit.
- Growth statistics for the first half of the year confirm that economic growth will be close to zero in 2001.
- Despite the economic crisis, the flows of FDI have been the main source of financing the current account deficit.
- The political, economic and social developments during the second half of 2001 and the whole 2002 will be dominated by the coming presidential elections that will take place in June 2002.

Colombia

Economic Indicators	2000	2001(e)	2002(e)
Real GDP growth	2.8	2.2	2.7
Inflation (%)	8.8	8.0	7.5
Current account (%GDP)	0.0	–2.5	–3.1
Fiscal balance (%GDP)	–3.5	–2.9	–2.5
External debt (%GDP)	40.2	40.3	41.1

- Slow recovery from the 1998-99 recession. Non traditional exports have led growth.
- IMF program: Through June 2001 Colombia has met quantitative targets (Fiscal deficit, International reserves and monetary indicators). Some structural reforms has been approved (eg: Tax and Transfers reforms).
- Government pre-financing for 2001-2002 has helped to isolate the economy from the Argentine crisis.
- Difficult peace process in progress. Plan Colombia in progress.
- Congress and presidential elections in 2H-2001 and 1H-2002.

Ecuador

Economic Indicators	2000	2001(e)	2002(e)
Real GDP growth	2.3	5.7	4.0
Inflation (%)	91.0	23.4	8.7
Current account (%GDP)	9.0	–3.4	–3.5
Fiscal balance (%GDP)	0.4	–1.1	–1.2
External debt (%GDP)	98.6	76.5	67.4

- Economy is recovering, supported by petroleum sector projects.
- Inflation slowing, producer price increases have already fallen to single digit levels.
- While VAT hike has been reversed, tax revenue is still increasing and fiscal outlook is favorable due to oil pipeline construction revenues.
- External deficit growing with increasing imports and stagnant exports, but financed with foreign investment.
- Risks: Financial sector; Competitiveness; Political and social instability; Approaching elections.

Peru

Economic Indicators	2000	2001(e)	2002(e)
Real GDP growth	3.1	0.5	4.0
Inflation (%)	3.7	2.5	2.3
Current account (%GDP)	–3.0	–2.4	–2.4
Fiscal balance (%GDP)	–3.2	–2.2	–2.0
External debt (%GDP)	53.0	53.0	51.4

- This year's slow growth responds to the contraction of private investment due to the political uncertainty and the severe fiscal adjustment took place in the first half of 2001.
- The new government is expected to announce a moderate relaxation of fiscal policy, employment promotion policies and the re-launching of a privatization program.
- External crisis contagion is limited due to the low dependence on short-term foreign capital and the ample cushion of foreign reserves.
- 2002's expected recovery is based on the resumption of FDI flows, a moderate fiscal stimulus and the start of production phase of the Antamina mining complex (US$ 800 MM in new exports).

Venezuela

Economic Indicators	2000	2001(e)	2002(e)
Real GDP growth	3.2	3.5	2.5
Inflation (%)	13.4	13.9	16.0
Current account (% GDP)	11.1	4.6	2.5
Fiscal balance (%GDP)	2.7	–3.5	–3.0
External debt (%GDP)	24.7	23.1	23.9

- Uncertainty and lack of confidence has prevented the private sector to participate in the oil boom.
- The exchange rate has been an anchor to keep in check inflation, but at the cost of loss of competitiveness.
- International reserves continue to be at comfortable level, but recently capital outflows are a concern.
- The fiscal balance is deteriorating rapidly because of lower oil revenues and increasing expenditures.

Argentina

Economic Indicators	2000	2001(e)	2002(e)
Real GDP growth	–0.5	–1.5	2.5
Inflation (%)	–0.7	–0.5	0.5
Current account (%GDP)	–3.3	–3.0	–3.3
Fiscal balance (%GDP)	–2.5	–2.3	–1.7
External debt (%GDP)	51.6	55.5	56.2

- Argentina is in the midst of a prolonged recession due to a severe confidence crisis fed by investors' scepticism on the political viability of the corrective fiscal policies undertaken and the severe competitiveness problems associated to its exchange rate regime.
- In spite of numerous adjustment attempts, a bail-out package led by the IMF and a mega swap to improve its debt service profile, Argentina's over-indebtedness (especially with regards to its exports) and doubts on the country's solvency has been reflected on risk spreads set at discounted default levels (over 1500 bps).
- Domestic confidence has been severely affected as seen by a run on domestic private deposits and a persistent loss of reserves.
- Recovery prospects will depend on achieving fiscal discipline and containing social pressures (16% unemployment rate).

Brazil

Economic Indicators	2000	2001(e)	2002(e)
Real GDP growth	4.2	2.0	3.2
Inflation (%)	6.0	6.5	4.5
Current account (% GDP)	–4.2	–4.4	–4.2
Fiscal balance (%GDP)	–4.4	–6.2	–4.0
External debt (%GDP)	39.0	44.0	–4.0

- Growth has been less than expected because of the effects of the Argentinean and the energy crises.
- Inflation has accelerated due to the depreciation of the real and its current pace is above the Government target.
- Decreasing FDI flows could pose risks on the externall accounts given the increasing financial needs.
- The fiscal balance could deteriorate due to higher interest rates and a weak currency.

Chile

Economic Indicators	2000	2001(e)	2002(e)
Real GDP growth	5.4	3.5	5.0
Inflation (%)	4.5	2.5	3.0
Current account (% GDP)	–1.0	–1.3	–1.4
Fiscal balance (%GDP)	0.1	–0.3	–0.5
External debt (%GDP)	55.6	54.9	57.1

- GDP growth of the Chilean economy is likely to remain low in 2001, due to high unemployment and slow recovery of domestic investment.
- However, the Central bank forecast a scenario of improved economic growth for the second half of the year supported by sound external accounts, and expected inflation in the target range.
- The Central bank moved from a real monetary policy rate to a nominal rate. This measure is expected to eliminate the persistence of the inflation rate.
- The turmoil coming from Argentina has produced a sharp depreciation of the Chilean peso. However, Chile's exposure to Argentina risk is believed to be mainly through Chilean's firm investment in Argentina.

Mexico

Economic Indicators	2000	2001(e)	2002(e)
Real GDP growth	6.9	0.8	4.1
Inflation (%)	9.0	5.9	5.5
Current account (% GDP)	–3.1	–3.4	–3.8
Fiscal balance (%GDP)	–1.1	–0.7	–0.3
External debt (%GDP)	25.9	25.5	25.3

- Economic growth decelerating due to US recession, but fundamentals remain solid.
- Inflation slowing and will fall below official goal of 6.5% in 2001.
- Fiscal balances in order: spending has been adjusted to compensate for lower than expected petroleum revenues.
- Despite an unfavorable international environment, investors have highlighted the good economic outlook: foreign investment flows have been steady, the peso has strengthened and interest rates have declined.
- Risks: More profound/longer US recession, and a continued deterioration in economies of the region (Argentina).

Staci Warden, Fidel Jaramillo

Free Trade Area of the Americas

A Limited Success Story: Foreign Trade in Latin America in the 1990s

By Joaquín Vial

The final years of the 1980s and the 1990s witnessed dramatic changes in the foreign trade regimes of most Latin American countries.[1] The barriers built over decades of continuous efforts to support the import substitution policies of the postwar era were dismantled in a few years' time. By the end of the last decade, all major countries had consolidated their bound tariffs at the World Trade Organization at levels below 50% (with just one exception) and actually-applied tariffs averaged 12.2%, ranging from a high of 20% in the Dominican Republic to a low of just 5.6% in El Salvador (ECLAC, 2001).

Even these general applied rates overestimate the amount of tariffs currently being assessed, given the significant number of trade pacts and free trade agreements signed during this period. The most glaring example is Mexico, whose average 16.2% tariff rates do not apply to most of its imports from NAFTA or from other trading partners with which it has signed free trade agreements. MERCOSUR in South America and NAFTA in North America have been major engines for trade expansion. Their example has prompted other regional groups, such as the Andean Community, to lower their own tariffs and preferences.

In addition, almost all major non-tariff barriers have been eliminated or considerably lessened during this period (ECLAC, 2001). The pervasive use of import licenses, prohibitions, quotas, etc. of the 1960s and 1970s has been almost eliminated from the region in the 1990s.

In their index on economic reforms, Morley, Machado and Pettinato (1999) at ECLAC expand on previous work done at the Inter-American Development Bank by Eduardo Lora and others (IDB, 1997). The index shows a significant jump in trade openness for a 17-country group in the region beginning in the the mid-eighties. On a scale that rises from 0 to 1 as openess increases, the countries moved from an average of about 0.65 in the mid-eighties to 0.80 in 1990 and 0.91 in 1993.

It is hard to convey the tremendous impact that such reforms have had on these countries, after so many years of protectionism in which private business was conducted under the umbrella of government support. Trade liberalization has brought competition into domestic markets and local producers have been forced to modernize to survive. This was necessary, given that domestic markets were too small to nurture dynamic competition based solely on local production and the fact that the promotion and diversification of exports was limited to those few areas in which government assistance was provided or nature provided the resources or conditions to make local production competitive in

Joaquín Vial, Alicia Frohmann

[1]In a few countries like Chile, for instance, this process took place in the 70s.

world markets. The downside of a more open trade regime has been the closure of many factories that were not able to compete or adapt to these new circumstances, and a sharp increase in unemployment among the emerging middle class of industrial workers. In several cases these adjustment pains have been compounded by the appreciation of the local currency, due in part to a surge of capital inflows attracted by the same reform process.

"Trade liberalization has brought competition into domestic markets and local producers have been forced to modernize to survive."

Overall export performance

After more than a decade of trade liberalization, is there any noticeable change in these countries' export performance? The answer is yes—both as compared to other regions in the 1990s—and compared to Latin America's performance in the previous decade. This is true both for overall exports and for exports of manufactures both in general as well as for those that are just simple transformations of raw materials into industrial primary inputs.

If we look at specific countries, the extremely fast expansion of the "maquila" industry in Mexico stands out as the most dynamic process in the expansion of manufactured exports in the region. A close second, which is in part due to the size of one project, is the expansion of manufactured exports in Costa Rica. If we leave aside these two very successful cases, the remaining countries show somewhat weaker export growth, even though they do much better than in the previous decade.

The following table presents data for export growth by regions between 1990 and 1999, on the basis of the annual report published by the WTO (2001).

TABLE 1.

Annual average rate of change of exports 1990–1999

	Percent
Latin America	8.24
Asia	7.80
North America	6.75
World	6.18
European Union (15)	5.78
Western Europe	5.71
Middle East	4.68
Africa	2.66
Central and Eastern Europe	1.70

Source: World Trade Organization (2001).

Even though 1999 is a year of relatively weak commodity prices, there is a clear sign of recovery in the ability of Latin American countries to export. Yet while the overall figures look quite impressive, they mask the fact that most of the expansion is concentrated in a few countries. If we exclude Mexico, where manufactured exports rose dramatically after NAFTA, the average rate of export growth falls below that of Western Europe. Other apparent success stories, like the expansion of manufactured exports in Argentina, have occurred mostly via intra-MERCOSUR trade, and are very vulnerable to the economic performance of Brazil and notoriously volatile, bilateral relative prices. The only countries in which we can see a significant and sustained increase in manufactured exports are Mexico, Costa Rica and, perhaps, Colombia (Table A.2). Other countries show a significant increase, either in manufactured exports or total exports, following a very poor (negative growth) performance in the 1980s, so it is too early to tell if this is the beginning of a new process, or just a recovery that might not be sustained over time.

When we explore in more detail, we find an interesting process of export expansion in manufactures that is different from those that rely heavily on economies of scale to exploit natural resources, and for lack of a better name we call here "non-traditional" exports. Bolivia, Costa Rica, El Salvador, Mexico and to a lesser extent Chile, stand out as successful exporters of these types of manufactures (Table A.3).

If we look at the main countries we can also observe the increasing importance of sub-regional trade pacts in promoting exports, as shown in the following table. Two important results stand out in Table 2:

- The two most dynamic exporters of manufactures (Mexico and Costa Rica) are heavily reliant on the U.S. market for

TABLE 2.

Share of exports according to market of destination

(Percent)

Country	Regional pact		U.S.A.	Rest of LAC	Out of region
Argentina	29.9	MERCOSUR	11.2	15.1	43.8
Bolivia	20.8	CAN	33.2	17.5	28.5
Brazil	14.0	MERCOSUR	22.6	7.0	56.4
Chile	—		19.8	22.8	57.4
Colombia	14.1	CAN	50.3	11.8	23.7
Costa Rica	7.6	CACM	51.6	8.4	32.3
Ecuador	7.9	CAN	37.6	15.7	38.9
Mexico	90.0	NAFTA		3.8	6.2
Peru	5.8	CAN	29.3	12.5	52.3
Venezuela	6.9	CAN	55.4	22.2	15.5

Source: M. Abreu (2001).

growth. The recent slowdown in the U.S. economy has dealt a heavy blow to these countries;

- The sub-regional pacts have had very little impact on overall trade in the other countries, except for Argentina, which is heavily dependent on the Brazilian market for its manufactured exports.

Most of the action in terms of export development in Latin America seems to come from the two major sub-regional trade agreements, NAFTA and MERCOSUR. Unilateral trade liberalization might be playing an important role also, but it is not clearly evident from the data.

Diversification of exports

A second issue to examine is the composition of exports: it might be argued that overall export performance might not be very impressive, because it combines the emergence of new export sectors with the decline of some traditional ones. Tables C.1 and C.2 show the composition of exports of the major Latin American countries in 1970 and 1999. These tables show a significant increase in the share of manufactured goods in total exports. This process is stronger in Bolivia, Brazil, Costa Rica, El Salvador and Mexico, but it also happened in almost every country. There are a few cases of export diversification for non-manufactured goods, such as Chile and the new oil exporters (Colombia and Ecuador). But even these countries still experienced an expansion in the share of manufactures in total exports.

It is also clear that the expansion in manufactured exports has been slow and limited, at least when compared with the performance of the Asian "tigers," China and other fast-growing countries.

The overall view then is mildly positive: trade liberalization has brought significant export expansion, but it is too early to tell if high rates of export growth can be sustained in a less favorable international environment. Most of the dynamism in manufactured exports is concentrated in just a few countries that gained access to a significantly larger export market (NAFTA for Mexico, the U.S. market for the Dominican Republic, and Brazil for Argentina).

Although there has a been a significant increase in the share of manufactures in total exports (with some unexpected newcomers like Bolivia), they still represent less than 50% of total exports in 14 out of 20 countries considered. This is a region that still depends very much on primary commodities to generate foreign exchange earnings, making it vulnerable to shocks in commodity prices. Besides the impact of oil prices in Mexico, Peru and Venezuela, or copper in Chile, there is also the indirect effect that such dependence causes on financial markets.

It might be worth mentioning that the export expansion and diversification that

"Most export development in Latin America seems to come from the two major sub-regional trade agreements, NAFTA and MERCOSUR."

> …the major trade liberalization effort of the late 1980s and early 1990s failed to result in deeper integration into the world economy.

we are seeing in Mexico, the Dominican Republic and Costa Rica still leaves room for significant volatility in trade flows, with strong effects on domestic economic activity and employment. When manufacturing is directly linked to other companies that sell the final products, then local exporters that produce inputs or parts might have to adjust production and employment significantly when the end-seller finds itself holding unexpectedly large inventories. This will probably change in the future once the export base becomes larger and more diversified, both in terms of end markets and products.

How much has Latin America really opened?

Export expansion and diversification are just two effects of trade liberalization. Overall trade expansion is probably as important as an indication of structural transformation and this is usually measured by the ratio of exports and imports of goods and services to GDP. Table B.1 shows the share of foreign trade (exports plus imports) as a percentage of GDP for the last four decades, and the change between the 1990s and the 1960s. The data is very eloquent: on average, the importance of trade in GDP rose 18.4 percentage points, which is not that much when we compare with the most dynamic regions of the world in this period (trade made up 23.5% of the GDP in East Asia and the Pacific in 1970. By 1999 this percentage had risen 69.8%).

If we look at individual countries, however, significant differences appear. In eight countries the share of trade expanded by more than 25% of GDP in the same period. Most of the expansion took place in the last decade, with a few exceptions (Jamaica, Costa Rica, and Chile) where the process started early and the share of trade has been growing steadily over time. On the other hand, Argentina and Brazil remain the countries with the lowest share of trade as a percentage of GDP, and they have experienced no significant expansion in the importance of trade in the 1990s. Peru actually saw its trade/GDP ratio decline, notwithstanding the significant removal of trade restrictions that took place in the early 1990s.

The conclusion that emerges from this data is somewhat puzzling. Apparently, in many countries the major trade liberalization effort of the late 1980s and early 1990s failed to result in deeper integration into the world economy. Only in Jamaica and Chile can one observe a close relationship between deliberate policies to remove trade barriers early on and a sustained build-up of the importance of international trade in GDP. Costa Rica, the Dominican Republic, and Mexico have successfully attracted foreign investment, either through specific incentives (“Zonas Francas” in the D.R.) or because of NAFTA. In all three cases, the easy access to the U.S. market allowed the integration of production plants in these countries into production chains in the U.S., with a substantial increase both in imports of parts and materials, and exports of semi-elaborated or finished goods. But other countries, such as Brazil and Argentina, that had the manufacturing base and heavy presence of multinational companies, have failed to turn this initial advantage into increased trade flows, partially due to relative prices that made production for export unattractive.

Some possible explanations

If we look at the experience of countries like Chile, that liberalized trade early on, one possible explanation is that the structural transformation of the economy takes a long time and many things have to go right in order to achieve success. Even after all the reform that has taken hold in Chile, the country still has an export basket heavily biased towards natural resources, which raises legitimate questions about the long-term sustainability of the process. To contribute to the debate we mention here four possible causes that might contribute to this result:

- ***Abundance of capital flows and real exchange rates appreciation:*** After all the discussions about sequencing of liberalization in the Southern Cone, it is surprising to realize how little of that thinking was incorporated into actual economic policy. Trade liberalization in the 1990s took place at the precise moment in which private capital was returning in force to the region, attracted in part by the commitment to reform that the countries were showing at that time, as well as a result of the privatization of large electric utilities, telecommunications systems, and other public enterprises. The 1990s were characterized by the steady and significant appreciation of Latin American currencies. This is not a favorable environment for the development of new export sectors.
- ***High cost of capital and limited access to financing of greenfield projects:*** One major problem in Latin America is the high cost of capital, especially to finance new projects. Large companies with links abroad can raise money in international financial markets, paying the premium for coming from a high-risk country. Small- and medium-sized companies or new entrants that want to start new, export-oriented projects find it extremely difficult to raise the necessary funds.
- ***Bureaucratic barriers to start-ups:*** Several studies have shown the severe bureaucratic barriers that have to be sorted through by those who want to start a new business, both in terms of the number of permits and procedures involved, as well as the long time delays (Djankov et al., 2000). There is increasing evidence that this is a factor that delays innovation and structural change (Warner, 2001).
- ***Weak institutions and corruption:*** One major problem in most Latin American countries is the prevalence of corruption, weak public institutions, and lack of compliance with the law (Vial, 2001). This is an environment prone to rent-seeking behavior and not conducive to entrepreneurship and innovation; it also might delay the onset of structural change.
- ***Natural disadvantages:*** Latin American countries have small and fragmented markets, with limited connections due to their very difficult geography, relatively poor infrastructure, and decades of mismanagement of ports, customs, airports, etc., either under state control or very tight supervision. The small scale of local operations and, in many cases, long distances to major markets abroad, have been a major obstacle for the development of a more sophisticated manufacturing base, able to expand into world markets.

Final comments

More than a decade of trade liberalizing reforms in most Latin American countries has resulted in a significant improvement in export performance in the 1990s as compared to the 1980s. There are very few cases, however, in which this process has resulted in deeper integration into the world economy.

On the positive side, we can point to several cases in which deliberate, market-opening policies have been very successful in terms of generating export-led growth. The leading examples are Mexico, Costa Rica, the Dominican Republic and, to a lesser extent Chile. But for most countries it is hard to say whether the improved performance of the 1990s is just the beginning of a process of structural change initiated by the economic reforms and trade liberalization.

On a more optimistic note, it might well be argued that the reforms are the force behind the recovery of exports, after the disastrous performance of the 1980s, even though it would be very difficult to prove (or reject) this hypothesis.

“In select countries, deliberate, market-opening policies have been very successful in terms of generating export-led growth.”

References

Abreu, Marcelo (2001): "Basis for Future Competitiveness in Latin America and the Caribbean: Trade Agreements and FDI Attraction." Unpublished manuscript, CID.

ECLAC (2001): *Panorama de la inserción internacional de América Latina y el Caribe.* Santiago. http://www.eclac.org.

Djankov, S., R. La Porta, F. Lopez-de-Silanes and A. Shleifer (2000): "The Regulation of Entry." Working Paper 7892, National Bureau of Economic Research, September. http://www.nber.org/papers/w7892.

Morley, S., R. Machado and S. Pettinato (1999): "Indexes of Structural Reform in Latin America". Serie Reformas Económicas 12, ECLAC. http://www.eclac.org.

IDB (1997): *Latin America after a Decade of Reforms.* Economic and Social Progress in Latin America.

Vial, J. (2001): "Building Institutions for a More Competitive Region." Unpublished manuscript, CID.

Warner, A. (2001): "Reasons for slow and decelerating growth in the Andean Countries." Unpublished manuscript, May. http://www.cid.harvard.edu/andes.

World Bank (2001): *World Development Indicators 2001.* CD-ROM.

World Trade Organization (2001): *World Trade Statistics 2000.* http://www.wto.org.

TABLE A.1

Evolution of total exports in Latin America

	Millions of 1999 dollars				Real rates of growth (percent)		
Countries	1970	1980	1990	1999	80/70	90/80	99/90
Argentina	7,882	18,007	16,242	23,020	8.6	–1.0	4.0
Barbados	138	337	280	197	9.3	–1.8	–3.8
Belize	62	186	138	159	11.6	–3.0	1.6
Bolivia	1,000	2,326	1,214	1,313	8.8	–6.3	0.9
Brazil	12,176	45,207	41,285	47,664	14.0	–0.9	1.6
Chile	5,486	10,293	10,903	15,619	6.5	0.6	4.1
Colombia	3,236	8,859	8,896	11,555	10.6	0.0	2.9
Costa Rica	1,027	2,317	1,915	6,277	8.5	–1.9	14.1
Ecuador	845	5,571	3,591	4,433	20.8	–4.3	2.4
El Salvador	1,014	1,617	538	1,164	4.8	–10.4	9.0
Guatemala	1,289	3,337	1,529	2,458	10.0	–7.5	5.4
Honduras	756	1,826	728	758	9.2	–8.8	0.4
Jamaica	1,489	2,115	1,457	—	3.6	–3.7	—
Mexico	5,357	34,675	34,513	136,145	20.5	0.0	16.5
Nicaragua	778	930	429	478	1.8	–7.4	1.2
Panama	485	793	443	705	5.0	–5.6	5.3
Paraguay	285	696	1,261	741	9.4	6.1	–5.7
Peru	4,641	7,334	4,356	4,740	4.7	–5.1	0.9
Trinidad & Tobago	2,143	9,155	2,735	2,806	15.6	–11.4	0.3
Uruguay	1,036	2,378	2,230	2,216	8.7	–0.6	–0.1
Venezuela	14,212	43,323	23,718	20,076	11.8	–5.8	–1.8
Latin America and the Caribbean	66,003	202,706	159,255	82,608	11.9	–2.4	6.6

— = No data available.
Source: ECLAC, based on official statistics.

TABLE A.2

Manufactured Exports in Latin America

Countries	Millions of 1999 dollars 1965	1980	1990	1999	Real rates of growth (percent) 80/70	90/80	99/90
Argentina	4,357	10,610	11,532	15,437	9.3	0.8	3.3
Barbados	124	335	272	191	10.4	–2.0	–3.9
Belize	53	164	113	102	11.9	–3.6	–1.1
Bolivia	507	896	394	893	5.9	–7.9	9.5
Brazil	4,312	31,516	32,651	38,113	22.0	0.4	1.7
Chile	4,752	8,183	7,749	10,128	5.6	–0.5	3.0
Colombia	498	2,634	3,199	4,670	18.1	2.0	4.3
Costa Rica	360	1,060	722	4,757	11.4	–3.8	23.3
Ecuador	80	1,428	473	1,086	33.4	–10.5	9.7
El Salvador	378	748	264	855	7.1	–9.9	13.9
Guatemala	569	1,374	685	1,282	9.2	–6.7	7.2
Honduras	231	541	180	361	8.9	–10.4	8.0
Jamaica	960	1,590	1,214	—	5.2	–2.7	—
Mexico	3,183	6,642	18,232	121,686	7.6	10.6	23.5
Nicaragua	373	379	203	179	0.2	–6.1	–1.4
Panama	160	505	201	268	12.2	–8.8	3.2
Paraguay	178	299	401	332	5.3	3.0	–2.1
Peru	3,223	4,071	3,102	3,300	2.4	–2.7	0.7
Trinidad & Tobago	1,916	5,400	1,702	2,178	10.9	–10.9	2.8
Uruguay	680	1,835	1,824	1,848	10.4	–0.1	0.1
Venezuela	4,294	14,510	3,984	8,769	12.9	–12.1	9.2
Latin America and the Caribbean	31,323	95,037	89,702	216,474	11.7	–0.6	10.3

— = No data available.
Source: ECLAC, based on official statistics.

TABLE A.3

Exports of Non-Traditional Manufactures in Latin America

Countries	Millions of 1999 dollars 1965	1980	1990	1999	Real rates of growth (percent) 80/70	90/80	99/90
Argentina	3,668	7,774	6,441	9,704	7.8	–1.9	4.7
Barbados	120	310	163	149	9.9	–6.2	–1.0
Belize	53	164	113	102	11.9	–3.6	–1.1
Bolivia	18	254	193	730	30.4	–2.7	15.9
Brazil	3,539	24,272	19,916	26,349	21.2	–2.0	3.2
Chile	245	1,565	1,915	3,677	20.4	2.0	7.5
Colombia	338	2,093	2,009	2,665	20.0	–0.4	3.2
Costa Rica	311	898	558	4,412	11.2	–4.7	25.8
Ecuador	80	988	260	810	28.6	–12.5	13.4
El Salvador	307	591	199	615	6.8	–10.3	13.4
Guatemala	489	993	575	963	7.3	–5.3	5.9
Honduras	178	451	125	304	9.8	–12.1	10.4
Jamaica	307	305	341	—	0.0	1.1	—
Mexico	2,143	3,734	12,255	112,241	5.7	12.6	27.9
Nicaragua	316	272	172	162	–1.5	–4.5	–0.7
Panama	53	310	185	177	19.2	–5.0	–0.5
Paraguay	164	249	372	275	4.2	4.1	–3.3
Peru	1,827	1,711	1,369	1,755	–0.7	–2.2	2.8
Trinidad & Tobago	245	283	276	488	1.5	–0.2	6.5
Uruguay	649	1,650	1,591	1,660	9.8	–0.4	0.5
Venezuela	142	310	1,277	942	8.1	15.2	–3.3
Latin America and the Caribbean	15,199	52,170	56,356	177,642	13.1	0.8	13.6

Source: ECLAC.
— = No data available.

TABLE B.2

Trade of Goods and Services in Latin America

(Exports + Imports as a percentage of GDP)

Countries	1960–69	1970–79	1980–89	1990–99	Change 90s–60s
Jamaica	72.4	75.8	101.5	120.2	47.8
Trinidad and Tobago	108.7	87.1	73.6	87.9	–20.8
Costa Rica	54.0	67.4	72.2	86.1	32.2
Dominican Republic	43.8	47.8	56.0	84.1	40.4
Paraguay	30.2	33.5	48.2	83.8	53.6
Nicaragua	56.5	64.8	53.9	83.7	27.2
Honduras	52.0	69.1	58.7	81.8	29.8
Chile	27.5	38.0	52.4	58.7	31.1
Ecuador	34.6	49.1	49.3	57.1	22.6
El Salvador	50.5	65.7	51.0	54.9	4.4
Venezuela	41.8	47.0	44.9	50.8	9.0
Mexico	17.8	16.7	29.4	49.0	31.2
Bolivia	—	—	47.8	47.4	—
Guatemala	32.2	44.0	34.9	43.0	10.8
Uruguay	27.8	33.5	42.2	42.9	15.0
Colombia	25.0	29.8	28.2	35.2	10.2
Peru	36.2	34.9	33.4	26.4	–9.8
Brazil	13.2	16.6	17.7	18.0	4.8
Argentina	12.7	13.5	15.2	17.0	4.2
Average of Latin America and the Caribbean	40.9	46.4	47.9	59.4	18.4

— = No data available.

Source: World Bank: World Development Indicators 2001.

TABLE C.1

Composition of Latin American Exports: 1970

(Percent)

Countries	Agricultural raw materials	Food	Fuels	Ores and metals	Manufactures
Argentina	10.9	74.3	0.4	0.5	13.9
Bolivia	1.7	2.7	4.5	88.0	3.0
Brazil	11.9	63.3	0.6	10.1	13.2
Chile	2.9	4.5	0.0	88.1	4.3
Colombia	6.2	75.0	10.1	0.7	8.0
Costa Rica	0.8	79.0	0.4	0.1	18.6
Dominican Republic	0.1	87.8	0.0	7.5	3.6
Ecuador	3.1	94.1	0.5	0.6	1.8
El Salvador	10.4	59.4	0.5	1.0	28.7
Guatemala	12.9	58.7	0.0	0.4	28.0
Honduras	10.7	71.8	3.7	5.8	8.1
Jamaica	0.1	23.0	2.6	28.0	46.3
Mexico	9.1	39.7	3.2	15.5	32.5
Nicaragua	23.8	56.8	0.1	3.2	16.0
Panama	0.6	74.7	19.6	1.5	3.6
Paraguay	28.1	63.0	0.0	0.0	9.0
Peru	5.9	43.5	0.7	48.3	1.4
Trinidad & Tobago	0.1	8.9	77.2	0.7	12.8
Uruguay	30.8	48.1	0.0	0.8	20.0
Venezuela, RB	0.0	1.6	91.0	5.8	1.4

Source: World Bank: World Development Indicators 2001.

TABLE C.2

Composition of Latin American Exports: 1999

(Percent)

Countries	Agricultural raw materials	Food	Fuels	Ores and metals	Manufactures
Argentina	2.1	49.6	12.0	3.5	31.6
Bolivia	3.9	26.2	5.6	23.2	40.8
Brazil	4.5	28.9	0.8	9.9	54.1
Chile	9.0	28.5	0.4	42.9	17.3
Colombia	5.1	23.8	39.9	0.7	30.5
Costa Rica	2.5	28.6	0.4	0.5	68.0
Dominican Republic	—	—	—	—	—
Ecuador	5.1	53.1	32.8	0.1	8.9
El Salvador	0.6	42.1	4.7	2.5	50.1
Guatemala	4.0	57.7	3.5	0.7	34.1
Honduras	4.8	61.6	0.5	1.1	31.9
Jamaica	—	—	—	—	—
Mexico	0.6	5.4	7.1	1.5	85.2
Nicaragua	2.2	87.7	0.8	0.4	8.6
Panama	0.8	71.9	9.1	1.7	16.6
Paraguay	14.1	70.2	0.1	0.3	15.2
Peru	2.9	30.4	5.3	40.2	21.2
Trinidad & Tobago	0.1	8.3	54.1	0.3	37.2
Uruguay	9.3	51.3	0.6	0.4	38.3
Venezuela, RB	0.2	2.6	81.4	4.0	11.7

— = No data available.

Source: World Bank: World Development Indicators 2001.

Karen DeYoung, Berard Aronson

The FTAA and Trade Negotiating Authority: Early Determinants of the Bush Administration's Trade and Foreign Policy Legacies

By Scott Otteman

With the arrival to the White House of George W. Bush, Latin America seemed poised at last to become an up-front United States foreign policy priority, moving out of its traditional role as the pesky neighbor best ignored until caught in a barrio-threatening financial or political crisis.

The new U.S. president appeared to be drawn to the Americas, in particular Mexico, by his personal and family history, as well as by political necessity. Not only had he served as governor of a major border state, but he spoke Spanish and had a sister-in-law of Mexican heritage married to his brother, who governed the Latin American enclave of Florida. His father's presidency had launched the mildly successful Enterprise for the Americas Initiative back in the early 1990s. Perhaps most importantly, the changing demographics of the United States seemed to impel Bush to embrace the Americas. The rapidly growing U.S. Hispanic/Latino population appeared to make the pursuit of policy initiatives that could attract its voting loyalty into a Republican electoral imperative. Bush's campaign, which included a special foreign policy address in Miami highlighting hemispheric issues, underscored the impression that a White House run by the Republican from Texas would pull U.S. relations with Latin America up from the policy backwaters in which they had often languished in the past.

Peter Allgeier

The logical centerpiece of the Bush Administration's reinvigorated "positive agenda" for the Western Hemisphere was (and is) pursuit of a successful conclusion to the ongoing 34-nation negotiations to create a Free Trade Area of the Americas. Though originally a Clinton initiative launched in late 1994 to build upon the momentum of the just-approved North American Free Trade Agreement and anchor the broader Summit of the Americas process, the FTAA fit nicely with the free-market, pro-business aspirations of the incoming Republican Administration. The prospects for achieving a "win-win" FTAA legacy during Bush's first term seemed reasonable, if—and these major, overlapping uncertainties remain today—1) Democratic efforts to interject controversial labor and environmental issues (opposed by the Latins and Caribbeans) into the regional trade talks could be tempered but not ignored, and 2) trade negotiating authority could be obtained from the U.S. Congress.

The perception that President Bush would intensify the U.S. executive's focus on the Americas was reinforced during his first months in office. Breaking precedent, he took his first foreign excursion as president south of the border, visiting the newly elected democratic Mexican leader, Vicente Fox, on his ranch in northern Mexico. In preparing for his first international leaders' meeting—the third Summit of the Americas, in Quebec City, Canada in April 2001—Bush met personally with seven Latin American heads of state and the Canadian prime minister. To underline the new Administration's commitment to the FTAA talks, U.S. Trade Representative Robert Zoellick met with an even greater number of his Latin counterparts and, at a pre-summit FTAA ministerial meeting in Buenos Aires in early April, successfully brokered a step-by-step timetable for concluding and implementing the regional trade negotiations by its long-established deadline of 2005. Zoellick's pro-active involvement, grasp of detail, understanding of others' political limitations, and willingness to engage in strategic give-and-take impressed many Latin American negotiators, who recalled that Clinton Administration trade envoys had mostly used past FTAA ministerials to incessantly badger their predecessors to include labor and environmental issues in the talks (Mickey Kantor) or failed to show up at all (Charlene Barshefsky).

In testimony before the U.S. Congress, Zoellick designated the FTAA as the regional cornerstone of the Administration's three-tiered strategy to promote a U.S.-led "competition in liberalization" of trade restrictions around the world. Under President Bush, he said, the United States should seek to catalyze trade-liberalizing negotiations at the multilateral, regional, and bilateral levels. By pushing simultaneously for progress in a new World Trade Organization round, in the FTAA, and in bilateral talks with Chile, Singapore and perhaps others, the U.S. could play one negotiation off the other and make sure that the threat of further advance in one set of negotiations kept foot-draggers from holding back concessions in others.[1]

Of the Bush cabinet, Zoellick also most clearly articulated how the FTAA could anchor the Administration's broader foreign policy approach in the Western Hemisphere. "Our goal should be to create a Hemispheric community from the bottom up, fitting the decentralized but globalized and wired world," he told a Chilean business group in Santiago in April and the Council of the Americas in Washington in May. "This new community would emphasize the private sector, non-governmental organizations, markets, and the ability of private groups to organize and overcome problems." He forecast that hemispheric free trade could bring Latin America and the United States closer together through "business integration, common commercial norms, benchmarks of behavior, and education." In this way, he said, the Americas would likely come "closer to a shared outlook toward the world."

The USTR also made the case that FTAA-expedited growth and development could help the United States achieve its non-economic foreign policy objectives inside and outside the region. "In the 21st century, strong countries will benefit from healthy, prosperous, and confident democratic neighbors," he predicted. "Troubled neighbors export problems like illegal immigration, environmental damage, crime, narcotics, and violence. Healthy neighbors create stronger regions through economic integration and political cooperation. If the Americas are strong, the United States will be better positioned to pursue its aims around the world. But if our hemisphere is troubled, we will be preoccupied at home and handicapped abroad."[2]

Whether one agrees with their thrust or not, Zoellick's forward-looking comments have an intellectual coherence that mark them as the closest the new administration has come to publicly articulating both a global trade strategy (Zoellick's portfolio) *and* a strategic foreign policy vision for the hemisphere (not necessarily his portfolio). As noted, the FTAA is fundamental to both of these strategies. And Zoellick (agreeing with many trade policy experts)

"Zoellick's forward-looking comments are the closest the new administration has come to publicly articulating both a global trade strategy and a strategic foreign policy vision for the hemisphere."

[1] Zoellick May 8, 2001 testimony to the House Ways & Means trade subcommittee. He likewise told the Council of the Americas on May 7 that, "Leaders from many other nations have now told us they want to pursue [bilateral] free trade agreements with the United States. We will consider each of these offers seriously, while focusing on the FTAA. By moving on multiple fronts, we can create a competition in liberalization that will promote open markets in our hemisphere and around the world."

[2] Zoellick speech to Chilean-American Chamber of Commerce, Santiago, Chile, April 4, 2001 & Zoellick speech to Council of the Americas, Washington, D.C., May 7, 2001. In his speech to the Council, Zoellick also explicitly stated that the FTAA "provides a framework for the Administration's Hemispheric policy," and noted that the focus on free trade was made "in tandem with an unambiguous pledge to support democracy" as evidenced by the decision of the FTAA leaders in Quebec to support inclusion of a so-called "democracy clause" as a condition of participation in the Summit of the Americas process.

“…most of Bush’s Latin American nominations seem more comfortable on the Cuban and Central American battlefields of the past than in Zoellick’s more modern (and moderate) worldview.”

indicated from the outset of the Administration that obtaining from the U.S. Congress trade negotiating authority (previously known as fast track and now renamed by proponents as trade promotion authority), as Bush promised his Americas counterparts in Quebec he would do by the end of this year, is vital to assert the U.S. leadership required to move the regional trade talks forward. Ergo, it can be argued that nothing short of the Bush Administration’s ability to effectively pursue its stated global trade and hemispheric foreign policy goals for the remainder of its term are at stake in this Fall’s expected congressional battle over TPA.[3]

For a number of reasons, the administration’s aggressive pursuit of TPA is more in demand now (and perhaps more likely) than even only a few months ago. With the U.S. economy and the budget surplus having gone south with impressive speed, executive action aimed at restoring business and consumer confidence is sorely needed—both for turning the economic situation around and for shoring up Republican mid-term election prospects in 2002. Passage of TPA leading to the launch of a new WTO negotiating round at Qatar in November and the intensification of the FTAA market access talks early next year would be one such expectations-altering move. At the same time, the administration’s intensified focus on other foreign and domestic policy priorities—missile defense, the Middle East, Social Security reform, energy policy, etc.—and its delay in gaining congressional approval for its senior Latin American appointments have combined to raise doubts in the media and in policy circles about Bush’s commitment to a new emphasis on hemispheric relations. Compounding the impression of business as usual was Secretary of State Colin Powell’s absence from the Organization of American States annual meeting and the fact that most of Bush’s Latin American nominations seem more comfortable on the Cuban and Central American battlefields of the past than in Zoellick’s more modern (and moderate) worldview.

A successful TPA campaign also could help provide answers about the Administration’s tactical competence in achieving legislative goals, which has been in question ever since it lost control of the Senate to the Democrats. And it also would allay fears, building in Latin America and elsewhere abroad, that the U.S. economic slowdown is leading to new barriers to trade by the United States—whether they be imposed by the Administration, with its self-initiation of a Section 201 investigation that threatens to raise duties on steel imports, or by the Congress, with its overt refusal in August 2001 to honor a long-standing NAFTA commitment to open U.S. roadways to Mexican trucks.

It must be quickly pointed out, however, that passage of any TPA bill whatsoever, regardless of content, does not necessarily bring the FTAA closer to fruition. To be helpful rather than harmful, the negotiating objectives contained in the TPA must not explicitly take off the table issues of major importance to Latin America. These include the contentious topics of market access for agricultural products and textiles and apparel, the reduction/elimination of farm export subsidies and other agricultural supports that distort trade, and possible changes to trade remedy regimes (antidumping and countervailing duty rules). Moreover, the compromise that must eventually be struck between Republicans and Democrats over the incorporation of labor and environmental provisions into TPA-qualifying trade agreements must not mandate the use of trade sanctions as the means of enforcement. A TPA containing hardline provisions of this sort could deaden rather than enhance hemispheric interest in the FTAA.[4]

As the TPA political battle unfolds in the United States, the FTAA negotiations

[3] The prospects for the TPA vote as of early August 2001, are dealt with in “The End Game for Trade Negotiating Authority.” It can be found in the archive of past “Trade Policy Today” columns available at www.thedialogue.org.

[4] See “The End Game for Trade Negotiating Authority” in the “Trade Policy Today” archive at www.thedialogue.org.

themselves proceed apace. Ten negotiating groups and three advisory panels continue to meet regularly in Panama, where the FTAA secretariat is housed until October 2002.[5] As instructed by trade ministers last April in Buenos Aires, the groups have established work programs aimed at trying to remove as many of the multiple brackets that remain in the draft negotiating text that was made public a few months ago. Those groups that involve market access negotiations have been given an April 1, 2002 deadline for making recommendations on the "methods and modalities" to be used in negotiating market access. The market access talks themselves are scheduled to begin on May 15, 2002. If serious concessions are to be proffered by the negotiating parties at that point, most analysts believe the United States must lead the way with credible offers backed by the ability to deliver on them, i.e. with TPA approved.

The first post-Quebec stock-taking meeting of the FTAA Trade Negotiations Committee—the group of deputy trade ministers responsible for guiding the negotiating process—will take place in late September of 2001 in Managua, Nicaragua. At that session, the TNC is expected to grapple with two major issues that have vexed the negotiations from the outset. Acting on instructions from the trade ministers, they will try to agree on how best to engage civil society—i.e. labor, environmental, and business groups, and the public in general—on the negotiating process.[6] And they will try to develop guidelines that the negotiating groups can use to ensure that the so-called small economies of the hemisphere are able to participate actively in the FTAA negotiations and fully take advantage of the final accord's benefits.

The FTAA talks and the U.S. political fight over TPA are taking place against a disquieting regional political and economic backdrop. Repeated cycles of financial crisis, less-than-anticipated growth, and deepening inequality are raising hard questions, for which there are no easy answers, about the Western Hemisphere's open-market, export- and investment-promoting development model. Based on these disappointing results, opposition to the model is on the rise in academic and activist circles in the United States and throughout the Americas. That opposition—whose vigorous public face can be seen in the "anti-globalization" protests against free trade and international financial institutions—has combined with a growing clamor for protection induced by the recent economic downturn to lower prospects for the FTAA project to their lowest point since 1998, the year following the Asian financial crisis and President Clinton's failed effort to obtain fast-track authority.

Yet the current global slowdown also means that a trade-liberalizing FTAA is more critical than ever to help improve the hemispheric and global economic outlook. Under these difficult and demanding circumstances, only uncharacteristically courageous and talented political leadership can advance the FTAA. That leadership must emerge in Brazil, where next year's presidential election campaign appears ripe for domination by anti-FTAA platforms, and in other parts of the Americas. But first and foremost, it must be made evident in the United States through the expenditure of political capital and the forging of bipartisan compromises necessary to secure approval of a viable TPA.

> **"Repeated cycles of financial crisis, less-than-anticipated growth, and deepening inequality are raising hard questions about the Western Hemispere's open-market, export- and investment-promoting development model."**

[5] The ten negotiating groups include the nine original ones—covering market access; agriculture; services; investment; government procurement; intellectual property rights; competition policy; antidumping, countervailing duties and subsidies; and dispute settlement—and a new one established in Buenos Aires on institutional issues. The three advisory panels address issues affecting small economies, electronic commerce, and civil society. In October 2002, the FTAA secretariat moves to Mexico City and the negotiations enter their final phase under the joint chairmanship of the United States and Brazil.

[6] I have written more extensively elsewhere about FTAA outreach to civil society. See "Connecting Civil Society to the FTAA/ALCA Negotiations" in the "Trade Policy Today" archive at www.thedialogue.org.

Annex I: Statistical Appendix

I. Social Indicators

A. Population and Labor Force

(Millions of people and percentages)

	Population						Labor force					
	Total Millions		Average annual growth rate %		Urban Percent of total		Total Millions		Average annual growth rate %		Female Percent of total	
	1980	2000	1980–1990	1999–2000	1985	2000	1980	1999	1980–1990	1990–1999	1980	1999
Bolivia	5.4	8.3	2.0	2.1	50.5	64.4	2	3	2.6	2.6	33	38
Colombia	28.4	4.0	2.1	1.9	67	73.7	9	18	4.0	2.7	26	38
Ecuador	8.0	12.8	2.5	2.2	51.3	62.7	3	5	3.4	3.3	20	28
Peru	17.3	27.1	2.2	2.1	66.3	72.3	5	9	3.1	2.7	24	31
Venezuela	15.1	23.6	2.6	2.0	81.6	87.4	5	9	3.4	3.0	27	34
Latin America	**360.0**	**509**	**2.0**	**1.7**	**—**	**—**	**130**	**219**	**3.0**	**2.5**	**28**	**35**

Source: World Development Report 2000/2001.

B. Structure of Economically Active Population, by Sector of Economic Activity

(As a percentage of total economically active population)

	Agriculture[a]			Industry[b]			Services[c]		
	1970	1980	1990	1970	1980	1990	1970	1980	1990
Bolivia	52.1	45.5	39.3	20.0	19.7	16.8	27.9	33.8	42.2
Colombia	39.3	34.2	26.9	23.3	23.5	21.9	37.4	42.3	51.2
Ecuador	50.6	38.6	30.8	20.5	19.8	17.9	28.9	41.6	48.3
Peru	47.1	40.0	26.7	17.6	18.3	15.9	35.3	41.7	50.3
Venezuela	26.0	16.1	13.3	24.8	28.4	25.1	49.2	55.5	61.6

[a] Includes: agriculture, forestry, hunting and fishing.
[b] Includes: mining and quarrying; manufacturing; construction; electricity, gas, water and sanitary services.
[c] Includes: commerce; transportation, storage and communications; and services.

Source: ECLAC, Statistical Yearbook 2000. Totals may not add up to 100.

C. Urban Unemployment Rate

(Percentages)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Bolivia	5.8	5.4	5.8	3.1	3.6	3.8	4.4	4.1	6.1	—
Colombia	10.2	10.2	8.6	8.9	8.8	11.2	12.4	15.3	19.4	20.4[c]
Ecuador	7.7	8.9	8.9	7.8	7.7	10.4	9.3	11.5	15.1	14.7[b]
Peru	5.9	9.4	9.9	8.8	8.2	8.0	9.2	8.4	9.2	10.3[a]
Venezuela	9.5	7.8	6.6	8.7	10.3	11.8	11.4	11.3	14.9	14.6[c]
Latin America	**—**	**—**	**6.5**	**6.6**	**7.5**	**7.9**	**7.5**	**8.1**	**8.8**	**8.5**

[a] March.
[b] Average January-October.
[c] First three quarters.

Source: ECLAC, Preliminary Overview of the Economies of Latin America and the Caribbean, 2000.

D. Per Capita Gross Domestic Product (GDP)

(US$ and percentages)

	Per Capita GDP (at constant 1995 prices)							Average annual rate (% based on values at 1995 prices)	
	1981–1990[a]	1995	1996	1997	1998	1999	2000	1981–1990	1991–2000
Bolivia	731	906	924	947	975	960	959	–1.9	1.4
Colombia	1,132	2,400	2,399	2,431	2,404	2,268	2,295	1.6	0.6
Ecuador	1,348	1,565	1,569	1,597	1,582	1,404	1,406	–0.9	–0.4
Peru	1,227	2,277	2,293	2,406	2,355	2,346	2,400	–3.3	2.4
Venezuela	3,840	3,248	3,167	3,332	3,290	3,037	3,079	–3.2	–0.1
Latin America	**1,831**	**3,641**	**3,710**	**3,839**	**3,863**	**3,818**	**3,910**	**–0.9**	**1.5**

[a] This data source: World Economic Indicators 2000 (World Bank), at current US$.

Source: ECLAC/CEPAL, Anuario estadístico de América Latina y el Caribe 2000.

E. Poverty and Indigence Levels

(Percentages)

		Households below poverty line[a]		Households below indigence line	
		Total	Urban	Total	Urban
Bolivia	1989	—	49	—	22
	1992	—	45	—	18
	1994	—	46	—	17
	1997	—	47	—	19
Colombia	1980	39	36	16	13
	1991	50	47	23	17
	1994	47	41	25	16
	1997	45	39	20	15
Ecuador	1990	—	56	—	23
	1994	—	52	—	22
	1997	—	50	—	19
Peru	1979	46	35	21	12
	1986	52	45	25	16
	1995	41	33	18	10
	1997	37	25	18	7
Venezuela	1981	22	18	7	5
	1990	34	33	12	11
	1994	42	41	15	14
	1997	42	—	17	—

[a]Includes households below indigence line or in extreme poverty situation.

Source: ECLAC, Social Panorama of Latin America · 1999–2000.

F. Human Development Index (HDI) 2001

	HDI Rank 2001	HDI Rank 2000	Life expectancy at birth (yrs)	Adult literacy rate (% age 15 and above)	Combined 1st, 2nd & 3rd level gross enrollment ratio (%)	GDP per capital (PPP US$)	HDI value[a]
Bolivia	104	114	62.0	85.0	70	2,355	0.648
Colombia	62	68	70.9	91.5	73	5,749	0.765
Ecuador	84	91	69.8	91.0	77	2,994	0.726
Peru	73	80	68.5	89.6	80	4,622	0.743
Venezuela	61	65	72.7	92.3	65	5,495	0.765
Latin America	**n/a**	**n/a**	**69.6**	**87.8**	**74**	**6,880**	**0.760**
Developing countries	**n/a**	**n/a**	**64.5**	**72.9**	**61**	**3,530**	**0.647**
Industrial countries	**n/a**	**n/a**	**76.6**	**97.5**	**87**	**22,020**	**0.900**

[a] The HDI value ranges from 0 to 1..

Source: UNDP, Human Development Report, 2001, (based on 1999 data). The HDI measures average achievements in basic human development in one simple composite index and produces a ranking of countries. (The 2001 index includes 162 countries.)

G. Trends in Selected Socioeconomic Indicators

	Year	Per capita GDP (in 1995 US$)	Per capita income (in 1995 US$)[a]	Urban unemployment (%)	Mean monthly variation in consumer price index	Percentage variation over the period: Period	Per capita GDP	Per capita income[a]	Real minimum remuneration	Urban minimum wage[d]	Per capita social public expenditure
Bolivia	1989	816	857	10.2	1.29	1989–99	17.6	11.3	30.6[c]	90.1	134.4[f]
	1994	886	879	3.1	0.68	1989–94	8.5	2.6	14.6	70.5	54.4[f]
	1997	947	955	4.4	0.54	1994–97	6.8	8.7	10.1	–3.6	49.4
	1999	960	954	6.1	0.26	1997–99	1.4	–0.1	3.6[c]	15.7	—
Colombia	1990	2,162	2,114	10.5	2.15	1990–99	6.2	5.6	10.1	–4.9	116.4[e]
	1994	2,332	2,325	8.9	1.73	1990–94	9.6	10.0	4.2	–4.0	57.4
	1997	2,431	2,436	12.4	1.37	1994–97	4.9	4.8	5.5	0.8	41.9
	1999	2,267	2,232	19.4	0.77	1997–99	–7.6	–8.4	0.2	–1.7	—
Ecuador	1990	1,471	1,546	6.1	3.41	1990–99	–4.5	–21.7	—	35.0	—
	1994	1,553	1,570	7.8	1.90	1990–94	5.5	1.5	—	15.9	—
	1997	1,597	1,571	9.3	2.25	1994–97	2.9	0.1	—	25.4	—
	1999	1,404	1,350	14.4	4.04	1997–99	–12.0	–14.1	—	–7.1	—
Peru	1990	1,894	2,048	8.3	43.69	1990–99	28.3	25.8	6.0	27.2	229.5[e]
	1994	2,134	2,337	8.8	1.20	1990–94	13.7	14.1	27.4	–38.1	—
	1997	2,406	2,691	9.2	0.52	1994–97	14.5	15.1	–13.5	85.3	—
	1999	2,346	2,577	9.2	0.31	1997–99	–1.5	–4.2	–3.9	10.9	—
Venezuela	1990	3,030	3360	10.4[b]	2.63	1990–99	–1.8	–9.9	—	–8.8	19.9[e]
	1994	3,133	3,125	8.7[b]	4.56	1990–94	3.4	–7.0	—	21.0	–11.2
	1997	3,332	3,420	11.4[b]	2.70	1994–97	6.4	9.4	—	–24.4	30.3
	1999	3,037	3,026	14.9[b]	1.53	1997–99	–10.7	–11.5	—	–0.2	—

[a]Refers to real per capita gross national income.
[b]National total.
[c]The last year of the period taken into account is 1998.
[d]The last year taken into account is 1998.
[e]Period 1990–97.
[f]The first year corresponds to 1990.

Source: ECLAC, Social Panorama of Latin America · 1999–2000.

II. Economic Indicators

A. Growth of Gross Domestic Product (GDP)

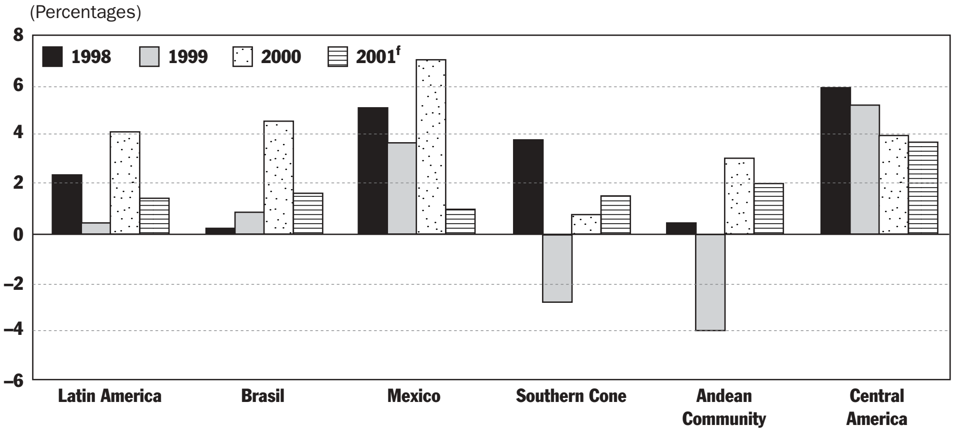
(Percentages)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]	2001[f]	1981–1990	1991–2000
Bolivia	1.6	4.3	4.7	4.7	4.4	5.0	5.5	0.6	2.0	1.0	–0.4	3.8
Colombia	3.7	4.6	6.1	5.2	2.1	3.4	0.5	–4.3	3.0	3.0	3.4	2.5
Ecuador	3.6	2.0	4.3	2.3	2.0	3.4	0.4	–7.3	2.4	3.5	2.4	1.7
Peru	–0.4	4.8	12.8	8.6	2.5	6.7	–0.4	1.4	3.6	–0.5	0.1	4.1
Venezuela	6.1	0.3	–2.3	4.0	–0.2	6.4	0.2	–6.1	3.2	3.5	–0.2	2.4
Latin America	**3.0**	**3.5**	**5.2**	**1.1**	**3.7**	**5.2**	**2.3**	**0.3**	**4.0**	**3.0**	**1.4**	**3.2**

[a]Estimates.
[f]Forecast.

Source: ECLAC/CEPAL, Situación y perspectivas–Estudio Económico de América Latina y el Caribe·2000–2001.

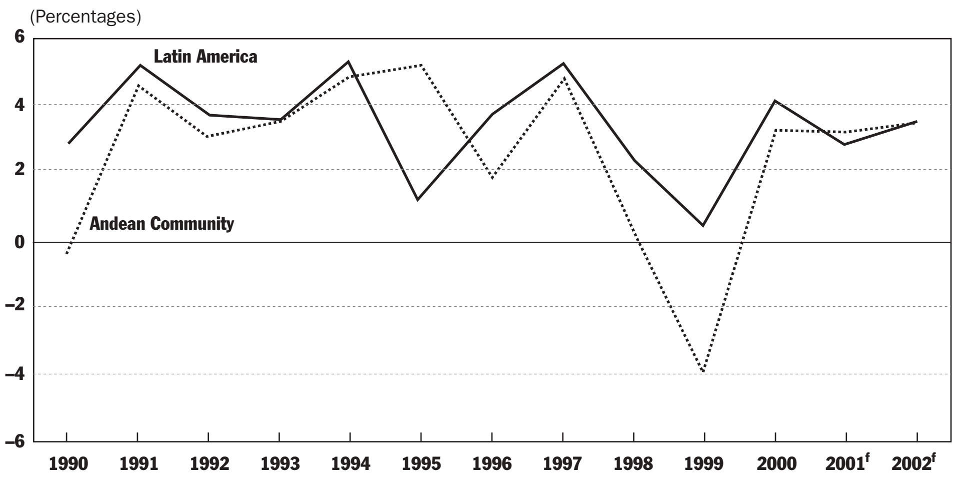
A.1. GDP Growth in Selected Latin American Sub-regions and Countries, 1998 –2001[f]



[f] Forecast

Source: ECLAC/CEPAL, Estudio Económico de América Latina y el Carie, 2000–2001.

A.2. Volatility of GDP Growth, Latin America and the Andean Community, 1990–2002[f]



[f] Forecast

B. Inflation
(Average annual rates)

	1995	1996	1997	1998	1999	2000[a]	2001[a,f]	2002[a,f]	1980–1989[b]	1990–1999[b]
Bolivia	12.6	7.9	6.7	4.4	3.1	3.8	2.7	—	1383.2	10.4
Colombia	19.5	21.6	17.7	16.7	9.2	9.2	8.0	6.5	23.5	22.5
Ecuador	22.8	25.6	30.6	43.4	60.7	96.1	39.5	12.5	34.0	39.0
Peru	10.2	11.8	6.5	6.0	3.7	3.8	3.5	4.5	481.3	807.9
Venezuela	56.6	103.2	37.6	29.9	20.0	16.2	11.5	10.0	23.0	47.4
Latin America	**25.8**	**18.2**	**10.4**	**10.3**	**9.5**	**8.7**	**5.9**	**4.6**	**230.9**	**149.8**

[a]This data source: JP Morgan.
[b]Average for the decade.
[f]Forecast.

Source: ECLAC/CEPAL, Estudio Económico de América Latina y el Caribe, 2000–2001.

C. Structure of Output
(US$ and percentages)

	Gross Domestic Product (US$ billions)		Value added as percent of GDP							
			Agriculture		Industry		Manufacturing		Services	
	1990	1999	1990	1999	1990	1999	1990	1999	1990	1999
Bolivia	4.9	8.5	15	16	30	31	17	17	54	54
Colombia	46.9	88.6	19	14	31	24	15	12	51	61
Ecuador	10.7	18.7	13	12	38	33	19	22	49	55
Peru	32.8	57.3	7	8	38	39	27	24	55	54
Venezuela	48.6	103.9	5	5	50	24	20	12	44	71
Latin America	**1,146.9**	**2,055.0**	**9**	**8**	**36**	**29**	**23**	**21**	**56**	**63**

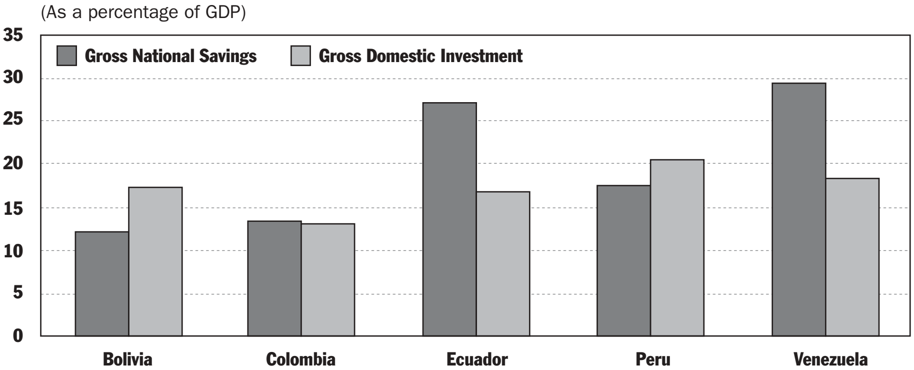
Source: World Development Report 2000/01.

D. Structure of Demand
(As a percentage of GDP)

	Private consumption		Government consumption		Gross domestic investment		Gross domestic savings		Exports of goods and services		Resource balance	
	1990	1999	1990	1999	1990	1999	1990	1999	1990	1999	1990	1999
Bolivia	77	73	12	16	13	18	11	11	23	15	–1	–7
Colombia	65	69	11	12	20	17	25	19	20	18	4	2
Ecuador	69	70	9	10	17	15	23	20	33	58	5	5
Peru	70	65	8	15	21	22	22	20	12	14	0	-2
Venezuela	62	77	8	6	10	15	29	17	39	21	19	3
Latin America	**65**	**68**	**13**	**13**	**19**	**21**	**22**	**20**	**14**	**16**	**2**	**–1**

Source: World Development Report 2000/01.

E. Savings and Investments in 2000



Source: Central Banks of Bolivia, Colombia, Ecuador, Peru, and Venezuela.

F. Balance of Payments
(As a percentage of GDP)[a]

	Trade balance		Curent account balance		Capital and financial account balance[b]		Overall balance	
	1999	2000[c]	1999	2000[c]	1999	2000[c]	1999	2000[c]
Bolivia	–8.2	–7.8	–6.7	–7.2	6.2	4.3	–0.5	–2.9
Colombia	0.6	1.6	0.0	–0.2	–0.3	1.2	–0.4	1.0
Ecuador	8.7	8.9	7.0	10.2	–13.5	–8.6	–6.5	1.6
Peru	–2.3	–1.9	–3.5	–3.0	2.0	2.8	–1.5	–0.2
Venezuela	5.0	12.2	3.6	11.1	–2.6	–6.3	1.0	4.8
Latin America	–1.2	–0.7	–3.2	–2.4	2.5	3.4	–0.7	1.0

[a]Based on figures in current dollars.
[b]Includes errors and omissions.
[c]Preliminary figures.

Source: ECLAC/CEPAL, Situación y perspectivas–Estudio Económico de América Latina y el Caribe·2000–2001.

G. Economic Outlook, Selected Latin American Countries

	Real GDP growth (% YOY)			**Consumer prices** (% YOY) avg			**Current Account Balance** (% GDP)		
	2000	2001	2002	2000	2001	2002	2000	2001	2002
Argentina	–0.5	–0.4	2.5	–0.9	–0.6	0.0	–3.3	–2.9	–3.0
Brazil	4.5	2.0	2.5	7.0	6.5	4.8	–4.1	–5.0	–4.9
Chile	5.4	3.3	4.5	3.8	3.5	2.9	–1.4	–2.8	–2.4
Mexico	6.9	0.9	4.7	9.5	6.7	5.8	–3.1	–2.9	–3.8
Colombia	2.8	2.3	3.4	9.2	8.0	6.5	0.0	–0.8	–1.3
Ecuador	2.3	6.0	3.0	96.1	39.5	12.5	10.3	3.1	2.0
Peru	3.6	–0.3	5.0	3.8	3.5	4.5	–3.0	–3.4	–4.3
Venezuela	3.2	3.0	2.2	16.2	11.5	10.0	9.7	6.8	3.9
Latin America	4.1	1.4	3.2	7.6	5.9	4.6	–2.3	–2.7	–3.2

Source: JP Morgan

H. Exchange Rates, 1993–2001

(Market rate per 1 US$, end of period)

	1993	1994	1995	1996	1997	1998	1999	2000[f]	2001[f]
Bolivia[a] (pesos)	4.5	4.7	4.9	5.2	5.4	5.7	5.7	...	...
Colombia (pesos)	917.3	831.3	987.7	1,005.3	1,295.5	1,550.0	1,870.0	2,032.2	2,160.6
Ecuador (sucres)	2,043.8	2,269.0	2,923.5	3,635.0	4,415.0	6,780.0	20,100.0	25,000.0	25,000.0
Peru (nuevo soles)	2.2	2.2	2.3	2.6	2.7	3.2	3.5	3.6	3.7
Venezuela (bolívares)	105.6	170.0	290.0	476.5	503.8	564.0	648.3	747.5	914.8

[a]This data source: IMF, International Financial Statistics, June 1999.
[f]Forecast.

Source: UBS Warburg.

I. External Debt

(US$ billions)

		1992	1993	1994	1995	1996	1997[a]	1998[a]	1999[a]	2000[a]	2001[f,a]	2002[f,a]
Bolivia	Total External Debt	4.2	4.3	4.8	5.2	5.1	5.5	4.2	4.5	4.4	—	—
	Service Payments	0.3	0.3	0.3	0.3	0.4	0.4	0.3	—	—	—	—
	External Debt/GDP	61.1	58.6	80.9	78.1	71.5	70.8	49.4	—	—	—	—
	External Debt Service/Exports	—	—	—	—	—	—	—	—	—	—	—
Colombia	Total External Debt	17.3	18.9	21.9	25.0	28.9	35.3	36.9	37.7	37.8	38.2	38.6
	Service Payments	4.0	3.7	5.6	4.3	5.4	6.8	7.0	7.2	6.3	6.9	7.3
	External Debt/GDP	39.1	37.2	32.0	31.1	33.7	33.1	37.4	44.5	46.6	47.9	47.4
	External Debt Service/Exports	—	—	—	—	—	45.2	49.0	49.0	38.1	41.5	42.7
Ecuador	Total External Debt	10.2	11.8	12.7	14.0	14.4	15.1	16.4	17.1	14.1	14.1	14.0
	Service Payments	1.1	0.9	1.0	1.9	1.3	5.9	6.4	4.7	10.4	6.0	3.8
	External Debt/GDP	80.9	82.6	76.6	77.9	75.7	76.4	83.1	124.8	103.7	75.3	68.4
	External Debt Service/Exports	—	—	—	—	—	96.0	125.3	88.0	180.1	81.5	45.9
Peru	Total External Debt	18.5	19.5	22.1	26.2	29.0	29.9	30.5	29.8	30.7	31.7	32.4
	Service Payments	1.0	3.2	1.1	1.2	2.9	3.7	4.0	3.7	3.9	4.2	4.2
	External Debt/GDP	44.3	48.4	44.3	44.5	47.4	50.6	53.4	57.3	57.0	56.9	54.3
	External Debt Service/Exports	—	—	—	—	—	41.0	48.7	45.0	42.5	40.9	37.2
Venezuela	Total External Debt	37.7	37.3	36.6	35.5	35.0	40.2	38.6	36.5	29.5	25.7	23.4
	Service Payments	3.3	4.6	4.7	5.5	4.7	4.3	4.9	5.0	5.3	5.3	5.1
	External Debt/GDP	62.4	62.2	62.6	45.9	49.7	45.3	40.3	35.3	24.5	20.0	17.5
	External Debt Service/Exports	—	—	—	—	—	15.7	23.1	20.6	14.4	13.8	13.1

[a]This data source: JP Morgan.
[f]Forecast.

Source: Inter-American Development Bank, Basic Socioeconomic Data Statistical Report.

J. International Reserves
(US$ billions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]	2001[a]
Bolivia	0.2	0.3	0.5	0.7	0.9	1.1	1.1	1.1	1.2	—
Colombia	7.9	8.0	8.2	8.6	10.0	9.9	8.7	8.1	9.0	8.9
Ecuador	1.0	1.5	2.0	1.8	2.0	2.2	1.8	1.8	—	—
Peru	3.4	3.8	7.3	8.6	10.9	10.2	9.2	8.4	8.2	8.5
Venezuela	13.0	12.6	11.5	9.7	15.2	14.9	12.0	12.3	13.1	13.6

[a]This data sources: CS First Boston and IMF Country Report: Bolivia, 2000.

Source: Inter-American Development Bank, Basic Socioeconomic Data Statistical Report.

K. Net Inflow of Foreign Direct Investment, by Selected Sub-Regions and Countries
(US$ billions)

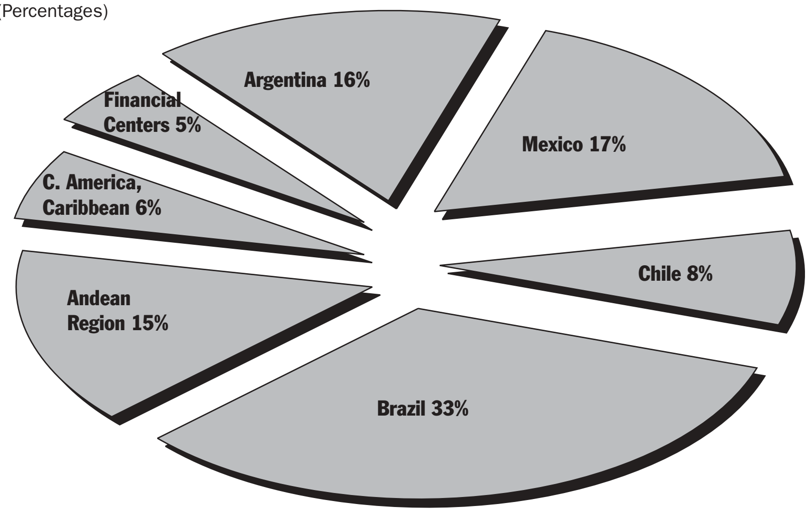
	1990–1994[a]	1995	1996	1997	1998	1999	2000
Bolivia	—	0.3	0.5	0.7	0.9	1.0	0.7
Colombia	0.8	0.9	3.1	5.6	3.0	1.1	1.3
Ecuador	0.3	0.5	0.5	0.6	0.8	0.7	0.7
Peru	0.2	2.0	3.2	1.8	1.9	2.0	1.2
Venezuela	0.8	1.0	2.2	5.5	4.5	3.2	4.1
Andean Community	**2.1**	**4.7**	**9.5**	**14.2**	**11.1**	**8.0**	**8.0**
Argentina	3.0	5.3	6.5	8.7	6.7	23.6	12.0
Brazil	1.7	4.8	11.2	19.6	31.9	32.6	30.2
Chile	1.2	2.9	4.6	5.2	4.6	9.2	3.7
Mexico	5.4	9.5	9.2	12.8	11.3	11.8	12.9
LA 4	**11.3**	**22.5**	**31.5**	**46.3**	**54.5**	**77.2**	**58.8**
Latin America	**18.2**	**32.2**	**46.5**	**69.8**	**78.5**	**93.1**	**74.2**

[a]This data source: World Economic Indicators 2000.

Source: ECLAC/CEPAL, Panorama Regional 2000.

K.1. Participation, FDI Net Inflows to Latin America and the Caribbean, 1995–2000[a]

(Percentages)



[a]Annual average; the 2000 figures are estimates.

Source: ECLAC/CEPAL, La inversión extranjera en América Latina y el Caribe, 2000.

L. Communication, Information, Science and Technology

	Per 1,000 people				Internet hosts	Scientists and engineers in R&D	High-technology exports	Patents filed 1997	
	TV sets 1998	Telephone mainlines 1998	Mobile phones 1998	Personal computers 1998	per 10,000 people 2000	per million people 1987–97	% of mfg exports 1998	Residents	Non-residents
Bolivia	116	69	27	2.5	1.14	172	8	17	106
Colombia	217	173	49	27.9	9.59	—	9	87	1,172
Ecuador	293	78	25	18.5	1.52	146	4	8	302
Peru	144	67	30	18.1	3.60	233	3	48	756
Venezuela	185	117	87	43.0	5.91	209	3	201	2,323
Latin America	**255**	**123**	**45**	**33.9**	**22.33**	**—**	**12**	**1,708**	**175,004**
Developing countries	**172**	**69**	**17**	**15.6**	**5.40**	**—**	**17**	**149,914**	**1,465,458**
Developed countries	**661**	**567**	**265**	**311.2**	**777.22**	**3,166**	**33**	**648,093**	**2,137,327**

Source: World Development Report, 2000/01.

III. Trade Indicators

A. Overview of the Trade Liberalization Process

		Before liberalization			After liberalization[a]		
	Starting date	Maximum tariff (%)	Number of tariff lines	Average tariff (%)	Maximum tariff (%)	Number of tariff lines	Average tariff (%)
Bolivia	1985	150.0	n/a	12.0	10.0	3	10.0
Colombia	1990	100.0	14	44.0	20.0	8	11.0
Peru	1990	108.0	56	66.0	24.0	2	13.6
Venezuela	1989	135.0	41	35.0	20.0	8	12.0

[a]Based on 1999 data.

Source: ECLAC, Economic Indicators, 1999 and WTO Trade Policy Review.

B. Exports, 1990–2000
(US$ millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Bolivia	923	652	798	804	1,123	1,139	1,216	1,348	1,207	1,242	1,318
Colombia	6,753	7,244	7,065	7,453	9,038	9,859	10,437	11,564	10,756	11,263	12,974
Ecuador	3,134	2,883	3,008	3,020	3,843	4,358	5,126	5,515	4,153	4,397	4,973
Peru	3,276	3,329	3,484	3,464	4,507	5,513	5,854	6,706	5,678	6,031	6,880
Venezuela	20,015	16,372	14,065	14,692	17,090	18,498	22,347	24,300	17,018	20,274	32,815

[a]Preliminary figures

Source: ECLAC, Preliminary Overview of the Economies of Latin America and the Caribbean, 2000.

B.1 Exports of Primary Products and Manufactures

(Percentages of total value of FOB exports of goods)

	Primary products					Manufactures				
	1980	1990	1995	1998	1999	1980	1990	1995	1998	1999
Bolivia	97.1	95.3	83.5	72.8	61.8	2.9	4.7	16.5	27.2	38.2
Colombia	80.3	74.9	65.8	67.9	69.5	19.7	25.1	34.2	32.1	30.5
Ecuador	97.0	97.7	92.4	89.6	91.1	3.0	2.3	7.6	10.4	8.9
Peru	83.1	81.6	86.5	80.0	82.8	16.9	18.4	13.5	20.0	17.2
Venezuela	98.5	89.1	85.8	81.5	88.3	1.5	10.9	14.2	18.5	11.7
Andean Community	**94.2**	**86.1**	**81.4**	**78.1**	**82.0**	**5.8**	**13.9**	**18.6**	**21.9**	**18.0**
Mercosur	**66.9**	**55.5**	**53.5**	**53.1**	**54.1**	**33.1**	**44.5**	**46.5**	**46.9**	**45.9**
Latin America	**82.1**	**66.9**	**50.4**	**41.8**	**40.8**	**17.9**	**33.1**	**49.6**	**58.2**	**59.2**

Source: ECLAC, Statistical Yearbook for Latin America and the Caribbean, 2000.

B.2. Andean Community: Exports of Leading Products, by their Percentage Share for Each Year

(Percentages)

Main products	1980	1990	1995	1996	1997	1998	1999
Crude Petroleum	47.1	37.3	30.1	37.3	34.0	27.7	48.4
Petroleum products	20.3	19.3	16.0	14.9	13.5	11.5	1.3
Coffee green, roasted etc.	8.8	5.3	5.8	4.3	5.8	5.8	3.8
Bananas, plantains fresh	1.0	2.6	3.2	3.2	3.8	4.0	3.5
Gold or dust, noncurrent	—	—	2.2	2.1	1.7	3.4	3.0
Coal, exc. briquettes	—	2.0	1.8	1.8	1.8	2.7	2.2
Shellfish fresh, frozen	—	1.1	1.7	1.4	1.9	2.2	1.7
Cut flowers	—	—	—	1.3	1.4	1.8	1.7
Copper refined	1.4	1.4	1.9	1.6	1.7	1.6	1.4
Aluminum, alloys	1.1	2.3	1.8	—	—	1.3	1.3
Meat or fish meal fodder	—	1.2	1.8	1.8	2.2	—	—
Average share of leading products (%)	**84.1**[a]	**74.0**[a]	**66.3**	**69.7**	**67.8**	**62.0**	**68.3**
Exports to the world market (US$ millions)	**30,126**[b]	**30,832**[b]	**40,097**	**45,359**	**47,574**	**38,876**	**43,426**

[a]Include the percentage share of the following products not included at the table: iron ore, etc; lead ores, concentrates; zinc ores, concentrates; natural gas, unrefined copper.
[b]Include the value of the products listed in [a].

Source: ECLAC, Statistical Yearbook for Latin America and the Caribbean, 2000.

B.3. Orientation of Exports

(Percent of exports with respect to total exports)[a]

	Year	Andean Community	Latin America	Other regions
Bolivia	1990	6.5	38.5	55.0
	1998	28.8	24.4	46.8
	1999	23.3	—	—
Colombia	1990	5.5	11.8	82.7
	1998	19.7	10.4	69.9
	1999	14.2	11.0	74.8
Ecuador	1990	7.0	21.6	71.4
	1998	13.2	13.4	73.4
	1999	8.7	—	—
Peru	1990	6.6	8.8	84.6
	1998	8.2	10.0	81.8
	1999	5.6	10.4	84.0
Venezuela	1990	2.8	13.0	84.2
	1998	11.4	22.0	66.6
	1999	6.1	28.6	65.3
Andean Community	1990	4.2	13.8	82.0
	1998	13.9	16.1	70.0
	1999	8.9	—	—

[a]Calculated on the basis of FOB exports.

Source: ECLAC, Statistical Yearbook for Latin America and the Caribbean, 2000.

C. Average Growth of Exports and GDP in the Last Three Decades

(1980 US$)

	Year range	Export growth[a]	GDP growth[a]
Bolivia	1971–1980	–1.7	3.9
	1981–1990	–2.4	–0.4
	1991–2000	5.1	3.8
Colombia	1971–1980	3.7	5.4
	1981–1990	6.4	3.4
	1991–2000	7.0	2.5
Ecuador	1971–1980	14.6	8.9
	1981–1990	6.2	2.4
	1991–2000	5.7	1.7
Peru	1971–1980	2.3	3.9
	1981–1990	–2.3	0.1
	1991–2000	8.4	4.1
Venezuela	1971–1980	–5.8	1.8
	1981–1990	1.6	–0.2
	1991–2000	7.7	2.4

[a]Average for the decade.

Source: ECLAC/CEPAL, Situación y perspectivas–Estudio Económico de América Latina y el Caribe·2000–2001.

D. Imports

(US$ millions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Bolivia	700	994	1,137	1,205	1,207	1,424	1,635	1,854	2,046	1,791	1,925
Colombia	5,589	4,955	6,686	9,821	12,435	13,859	14,354	15,377	14,663	10,796	11,766
Ecuador	1,874	2,420	2,516	2,599	3,634	4,193	4,425	5,193	5,371	2,881	3,220
Peru	2,884	2,476	3,744	4,008	5,565	7,537	7,623	8,192	7,989	5,178	4,831
Venezuela	6,111	10,042	12,342	11,271	8,277	11,204	10,926	14,743	13,759	10,913	14,408

[a]Preliminary figures.

Source: ECLAC, Preliminary Overview of the Economies of Latin America and the Caribbean, 2000.

E. Intra-Regional Imports

(Percent of imports from Latin America with respect to total imports)[a]

	1980	1985	1990	1995	1999
Bolivia	51.4	50.0	48.2	53.0	61.8
Colombia	19.8	17.8	18.4	26.7	25.8
Ecuador	14.4	20.4	22.0	29.6	31.0
Peru	15.0	25.7	33.1	36.4	33.5
Venezuela	9.5	9.9	12.5	24.0	20.0

[a]Calculated on the basis of FOB exports.

Source: ECLAC, Statistical Yearbook for Latin America and the Caribbean, 2000.

F. Recent Trade Performance, Selected Latin American Sub-Regions and Countries

(US$ and percentages)

	Exports (US$ millions)		Average Growth (%)	Imports (US$ millions)		Average Growth (%)	Trade Balance (US$ millions)	
	1999	2000	1999–2000	1999	2000	1999–2000	1999	2000
Bolivia	1,242	1,318	6.1	1,791	1,925	7.5	–549	–607
Colombia	11,263	12,974	15.2	10,796	11,766	9.0	467	1,208
Ecuador	4,397	4,973	13.1	2,881	3,220	11.8	1,516	1,753
Peru	6,031	6,880	14.1	5,178	4,831	–6.7	853	2,049
Venezuela	20,274	32,815	61.8	10,913	14,408	32	9,361	18,407
Andean Community	**43,207**	**58,960**	**36.4**	**31,559**	**36,150**	**14.5**	**11,648**	**22,810**
Argentina	17,404	19,718	13.3	18,700	18,691	0.0	–1,296	1,027
Brazil	35,032	41,399	18.2	35,808	40,682	13.6	–776	717
Paraguay	1,824	1,859	1.9	1,864	2,237	20.0	–40	–378
Uruguay	1,619	1,737	7.3	2,429	2,553	5.1	–810	–816
Mercosur	**55,879**	**64,714**	**15.8**	**58,800**	**64,163**	**9.1**	**–2,922**	**551**
Chile	**11,521**	**13,628**	**18.3**	**10,344**	**12,578**	**21.6**	**1,176**	**1,050**
Mexico	**98,856**	**122,117**	**23.5**	**102,020**	**126,618**	**24.1**	**–3,163**	**–4,501**
C. America	**11,946**	**12,724**	**6.5**	**16,688**	**18,689**	**12.0**	**–4,742**	**–5,965**
L. America	**221,409**	**272,143**	**22.9**	**219,411**	**258,198**	**17.7**	**1,998**	**13,945**

Source: CEPAL/ECLAC, Situación y perspectivas–Estudio Económico de América Latina y el Caribe·2000–2001.

Annex II: Profiles of Speakers

Sebastián Alegrett is secretary general of the Andean Community. He was formerly ambassador of Venezuela to Colombia and ambassador and permanent representative of Venezuela to the Organization of American States.

Peter Allgeier is deputy U.S. trade representative in the Office of the U.S. Trade Representative (USTR).

Bernard Aronson is managing partner of ACON Investments, L.L.C.

Luis Enrique Berrizbeitia is executive vice-president of the Andean Development Corporation.

Fernando Cepeda Ulloa is professor of political science at the University of the Andes. He was Colombia's minister of government.

Joyce Chang is global head of emerging market research at JP Morgan Chase. She has worked previously at Chase Securities, Merrill Lynch, Salomon Brothers and the U.S. Agency for International Development.

Karen DeYoung is associate editor at the Foreign Desk for *The Washington Post*.

Gustavo Fernández Saavedra is minister of foreign affairs of Bolivia.

Lourdes Flores Nano is a former member of congress in Peru. She has been general secretary of the Popular Christian Party (PPC) and is Andean Area vice-president of the Christian Democratic Organization.

Richard H. Frank is CEO of Darby Overseas Investment, Ltd. and former managing director of the World Bank.

Alicia Frohmann is chief of the FTAA Department at the Ministry of Foreign Affairs of Chile.

Enrique García is president and CEO of the Andean Development Corporation. He was Bolivia's minister of planning and coordination and head of the economic and social cabinet.

César Gaviria is secretary general of the Organization of American States. He was president of Colombia from 1990 to 1994.

Luis Giusti is former chairman of Petróleos de Venezuela, S.A. He is currently senior adviser to the Center for Strategic and International Studies and is director of Shell Transport and Trading.

José Alfredo Graça Lima is assistant secretary for trade and economic affairs at the Ministry of Foreign Affairs of Brazil. He is president of the national section of FTAA and chairman of the Inter-Ministerial Group on Foreign Trade of Goods and Services.

Lino Gutiérrez is acting assistant secretary for Western Hemisphere Affairs at the U.S. Department of State. He previously served as ambassador to Nicaragua.

Peter Hakim is president of the Inter-American Dialogue.

Enrique Iglesias is president of the Inter-American Development Bank.

Fidel Jaramillo is vice president for development strategies and senior economist at the Andean Development Corporation.

Luiz Felipe Lampreia is former foreign minister of Brazil. He currently serves as chairman of the Brazilian Center for Foreign Relations.

Richard Moss Ferreira is minister of foreign trade, industrialization, and fisheries of Ecuador.

Moisés Naím is editor and publisher of *Foreign Policy* magazine.

Scott Otteman was director of the trade policy project at the Inter-American Dialogue. He is now director of international trade policy at the National Association of Manufacturers.

Guillermo Perry is chief economist for Latin America and the Caribbean at the World Bank.

Manuel Rodríguez is vice minister of foreign affairs of Peru. He previously served as the permanent representative of Peru to the Organization of American States.

Miguel Rodríguez Mendoza is deputy director general of the World Trade Organization. He formerly served as chief trade advisor at the Organization of American States.

David J. Rothkopf is CEO of Intellibridge Corporation. He is also an adjunct professor of international affairs at Columbia University's School of International Affairs and Georgetown School of Foreign Service.

Andrés Rozental is president of Rozental & Asociados and serves as ambassador at large and special presidential envoy of President Vicente Fox of Mexico. He was also deputy foreign minister of Mexico and served as ambassador to the United Nations in Geneva, Sweden and the United Kingdom.

José Manuel Salazar-Xirinachs is chief trade advisor and director of the trade unit at the Organization of American States.

Carlos Salinas Estenssoro is vice minister of energy of Bolivia.

Everett Santos is CEO of the Latin America Group of Emerging Markets Partnership (EMP), and principal adviser of the AIG-GE Capital Latin American Infrastructure Fund (LAIF).

Juan Manuel Santos is minister of finance of Colombia. He was president of the VII United Nations Conference on Trade and Development (UNCTAD), and president of the Economic Conference for Latin America (ECLA).

Jeffrey Schott is a senior fellow at the Institute for International Economics. Previously, Schott was a senior associate at the Carnegie Endowment for International Peace, and an official of the U.S. Treasury Department in the areas of international trade and energy policy.

Michael Shifter is vice president for policy at the Inter-American Dialogue.

Joaquín Vial is the project director of the Andean Competitiveness Project at the Center for International Development of Harvard University. He was Chile's national budget director and chief advisor on macroeconomic policy at the Ministry of Finance.