

A BREAK IN THE CLOUDS

Latin America and the Caribbean in 2005



Policy Report ▪ July 2005

Inter-American Dialogue
Sol M. Linowitz Forum

THE INTER-AMERICAN DIALOGUE

The Inter-American Dialogue is the leading U.S. center for policy analysis, exchange, and communication on issues in Western Hemisphere affairs. The Dialogue brings together public and private leaders from across the Americas to address key hemispheric problems and opportunities.

The Dialogue's select membership of 100 distinguished citizens from throughout the Americas includes political, business, academic, media, and other nongovernmental leaders. Eleven Dialogue members served as presidents of their countries and nearly thirty have served at the cabinet level.

Dialogue activities are directed to generating new policy ideas and practical proposals for action, and getting these ideas and proposals to government and private decision makers. The Dialogue also offers diverse Latin American and Caribbean voices access to U.S. policy debates and discussions. Based in Washington, the Dialogue conducts its work throughout the hemisphere. A majority of our Board of Directors are from Latin American and Caribbean nations, as are more than half of the Dialogue's members and participants in our other leadership networks and task forces.

Since 1982—through successive Republican and Democratic administrations and many changes of leadership elsewhere in the hemisphere—the Dialogue has helped shape the agenda of issues and choices in inter-American relations.

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Inter-American Dialogue Policy Report 2005
Sol M. Linowitz Forum

*Dedicated to the Memory of
our Founding Chairman*



Sol M. Linowitz

1913–2005

FOREWORD

We are proud to dedicate the Inter-American Dialogue's 2005 policy report—our 13th comprehensive policy statement on Western Hemisphere relations since 1982—to the memory of our founding chairman, Sol M. Linowitz, who died on March 18, 2005, at age 91. He was a man of extraordinary achievement who made distinguished contributions to public service, business, and the legal profession. Across the Americas, he is most recognized for his leadership in negotiating the Panama Canal Treaties and helping secure their ratification in the U.S. Senate. All of us associated with the Dialogue appreciated the thoughtfulness and zest with which Sol established and guided the Dialogue. His stewardship set the tone and shaped the values of our work. His commitment to democracy and to cooperation among the nations of the hemisphere continues to inspire us.

In tribute to this exceptional man, the Dialogue inaugurated the Sol M. Linowitz Forum in 1996. This periodic assembly of public and private leaders from throughout the Americas has become a vital part of inter-American relations, providing opportunities for a politically diverse group of concerned citizens to search for cooperative solutions to the most important problems in hemispheric affairs.

This year's report—*A Break in the Clouds*—conveys our hope that the impressive growth of Latin America's economies in 2004 and 2005 will be sustained and will help ease the region's damaging political and social strains. But it also expresses concern that, without substantial policy and institutional reform, the current economic expansion may be short lived. Our central message is that Latin America's future depends mostly on whether the region's governments take the measures necessary to make their economies and societies stronger, more resilient, and more just. We argue that political success, economic progress, and social advance in Latin America require fundamental changes. Among the most important are efforts to promote increased exports

and foreign investment, sharply boost savings and tax revenues, invest more in infrastructure, improve the dismal quality of education, and directly attack the region's pervasive inequality.

We are deeply troubled by the increasing tensions in inter-American relations and by the growing divide between the United States and many other nations of the hemisphere. However, this report mainly focuses on the challenges confronting the governments and citizens of Latin America and the Caribbean. We urge that it be read in tandem with the report of the Dialogue's special task force on U.S. policy, *Agenda for the Americas 2005*, released in March. That report proposes a series of initiatives to restore significant priority to Latin America and the Caribbean in Washington's foreign policy agenda—in the interests of both the region and the United States.

As a genuinely inter-American group, the Dialogue brings a special perspective to discussions of hemispheric policy. One-half of our 100 members are citizens of the United States. The other half are from Canada and 22 nations of Latin America and the Caribbean. Our membership is diverse. We include Republicans and Democrats from the United States, and supporters of a wide spectrum of parties from elsewhere in the Americas. All of us, however, share a deep commitment to democratic politics, economic and social progress, and greater cooperation in inter-American relations.

The report reflects the consensus of the Dialogue's members. Not every signer agrees fully with every phrase in the text, but—except as noted by individual statements—each of them endorses the report's overall content and tone, and supports its principal recommendations. Signers subscribe as individuals; institutional affiliations are for purposes of identification only.

We appreciate the many contributions we have received for the Dialogue's endowment fund, which helps support the Linowitz Forum. Our

campaign chairs, John Whitehead and Javier Pérez de Cuéllar, deserve particular thanks. We are also grateful for the strong financial support of our Board of Directors, our members, and others closely associated with the Dialogue. We are especially pleased to acknowledge generous gifts from AIG, Andean Development Corporation (CAF), Bloomberg Inc., Cisneros Group of Companies, Diageo, Ford Foundation, General Electric, Merck & Co., Mitsubishi International Corporation, Tinker Foundation, UBS, and Whitehead Foundation; the Embassies of Argentina, Chile, Colombia, Finland, Guatemala, Japan, and Peru; Canadian International Development Agency, the Government of Germany, Inter-American Development Bank, Swedish International Development Agency, United Kingdom Department of International Development, U.S. Agency for International Development, and the World Bank; and other individual and corporate donors.

Fernando Henrique Cardoso, Co-Chair
Peter D. Bell, Co-Chair
Peter Hakim, President

July 2005

A BREAK IN THE CLOUDS

Latin America and the Caribbean in 2005

After five years of stagnation, most economies in Latin America and the Caribbean resumed a healthy pace of growth in 2004—which has continued this year. So far, however, the economic rebound has not done much to ease the political turmoil or moderate the social tensions affecting many of the region's countries. While boosting hopes for the future, this welcome break in Latin America's economic clouds has also starkly exposed the many daunting challenges still confronting the region.

- ▶ **Sustaining a steady, robust rate of economic growth is a key challenge.** Last year's growth of nearly 6 percent for the region as a whole was the largest since 1980. More than 4 percent growth is forecast in 2005. But the region needs solid growth over many years in order to make progress on other critical issues—governance, poverty, and personal security. A mix of unusually favorable circumstances in the international economy—high commodity prices, buoyant Chinese and American economies, and low international interest rates—has been driving Latin America's economic expansion for the past year and a half. These circumstances will not last long. Despite vastly improved macroeconomic management across the region, economic advance is still hampered in many places by paltry rates of savings and investment, extremely low levels of tax collection, archaic labor legislation, poor quality judiciaries, and extensive corruption. Enormous inequalities in income and opportunity, along with mediocre public education from the primary through the university level, are further barriers to growth.
- ▶ **Political and social strains are severe and worsening in many nations of Latin America.** Criminal violence has reached alarming

levels in many places. Racial and ethnic rifts divide some countries. Unemployment rates are nearly double what they were a decade ago. Few governments have made any headway against the region's massive poverty and inequality. Political instability threatens democratic rule in many nations; two countries, Haiti and Venezuela, can scarcely be called democracies any more. It is heartening that public support for democracy, although declining, remains surprisingly firm in most places, despite the poor performance of so many democratic governments.

► **Latin American nations are also challenged by the deteriorated quality of their relations with the United States.** To be sure, Latin America and the United States are not adversaries. They continue to share interests and values, and work together on many fronts. Still, they have grown apart in many ways. Overwhelmingly, Latin Americans are critical of U.S. foreign policy directions and unhappy that Washington has not done more to aid the region's development or help resolve the difficult problems of some countries. It is unclear whether the Bush administration will, in its second term, give greater priority to Latin America. The administration's stated commitment to the hemispheric trade agenda, President Bush's endorsement of U.S. immigration policy reform, and his support for sustained assistance to Colombia are all encouraging. Secretary of State Condoleezza Rice's trip to four Latin American nations this past April may be a sign of change in Washington's thinking about the region. But the current strains and divisions in inter-American relations are obstructing needed cooperation, and will not be easily overcome.

THE GOOD ECONOMIC NEWS AND THE BAD

After six years of slow or no growth, the expansion of Latin America's economies in 2004 and 2005 was a dramatic turnabout. This upsurge in economic activity has contributed to an increase in popular support for leaders in some nations, including Brazil, Chile, Argentina, and Venezuela.

The Brazilian economy grew by more than 5 percent in 2004, three times greater than its average growth in the previous six years. Mexico's economy, which expanded by 4 percent last year, had been static for more than three years. From 1999 to 2002, Argentina's economy shrank by some 20 percent, but in the last two years, it has recovered most of that decline. From 1998 to 2003, Venezuela lost nearly a quarter of its economic activity, but high oil prices propelled 16 percent growth last year. The Chilean economy, by far the region's most vigorous, after expanding on average by less than 3 percent a year from 1998 through 2003, grew by more than 6 percent in 2004 and continues at that pace this year as well.

How much longer Latin America will enjoy sturdy economic growth remains uncertain.

How much longer Latin America will enjoy sturdy economic growth remains uncertain. The recent expansion has been driven by increased exports and low interest rates, mostly due to an unusually vibrant global economy. Overall, the value of Latin America's exports jumped by an unprecedented 22 percent in 2004, increasing revenue by \$85 billion. Chilean exports skyrocketed by some 60 percent last year, while Brazil's are projected to grow by nearly 60 percent over the two-year period 2004 and 2005. However, there are concerns that the high demand for—and prices of—Latin America's export commodities may not last much longer. In addition, rising U.S. and global interest rates will make it more costly for Latin American countries both to service existing debt and borrow new funds.

Still, foreign direct investment remains far stronger than anticipated. It totaled some \$50 billion in 2004, or about one-third more than a year earlier, although considerably below the \$80 billion invested in 1999. Family remittances, flowing mostly to low-income groups in the region, reached a record high of nearly \$50 billion last year.

COMPETING GLOBALLY

Too many of Latin America's economic booms in the past half-century have turned into busts for anyone to now predict with confidence that the region is on a permanent course of growth. To be sure, most of Latin America's economies are far better managed today than they have been in the past. But sustained economic success will require other fundamental changes—including substantially larger investments in education and infrastructure, systematic efforts to increase national savings and improve tax collection, better designed and managed anti-poverty programs, and new measures to bolster foreign trade and investment. Some countries—Chile particularly—have made important progress, but Latin America as a whole has fallen behind the rest of the world on virtually all these dimensions.

*China is exporting more, saving more,
investing more in education,
and securing far more foreign investment.*

Over the past 50 years, economic growth in Latin America has lagged that of most other developing regions. A half-century ago, Latin America's per capita income was higher than that of Spain and Portugal, most Eastern European nations, and most East Asian countries; in each case, it is now lower. Today, Latin America is being challenged by the large and fast expanding economies of China and India. In 1994, China's economy was one-third the size of Latin America's; today, they are about the same size. China is exporting more, saving more, investing more in education, and securing far more foreign investment.

The accelerated growth of China and India is having a mixed impact on Latin America's economies. For Southern Cone countries such as Brazil, Chile, and Argentina—as well as other resource-rich nations such as Venezuela—the rapidly expanding Chinese market for foodstuffs and minerals has produced sharply increased export revenues. These countries are also looking to China as a potential source of new investment. Other

countries, such as the Central American republics and Mexico, view China largely as a competitor, a low-cost producer of manufactured goods, which is cutting into their sales, profits, and access to new investment. With this year's expiration of worldwide textile quotas, China has emerged as an even stronger commercial rival. The longer term challenge for Latin America, however, is not low-wage competition from China. It is instead the prospect of China's rapid technological advance, given the comparative quality of Chinese schooling, the country's commitment to build its science and engineering capacity, and its access to international capital.

With their solid macroeconomic management, most Latin American nations are well positioned to compete with China and other global rivals. To succeed, however, they need to make their economies more productive and less volatile, and further integrate them into the world economy. They will need to expand exports, save more, and massively improve their education, technology, and infrastructure. Regional and international development agencies—including the Inter-American Development Bank, the Andean Development Corporation, and the World Bank—all have critical contributions to make in these areas.

FREE TRADE

Successful completion of the Doha Round of multilateral trade negotiations would help Latin America grow faster and compete more successfully. Progress will mostly depend on the United States and Europe finding common ground, particularly on critical agricultural issues. Cooperation from Latin American nations could facilitate that progress. Brazil in particular has demonstrated that it can play an influential and constructive role in global trade negotiations.

Agreement in the Doha Round, by resolving the impasse over agriculture and a few other especially difficult issues, would set the stage for a successful negotiation of the Free Trade Area of the Americas (FTAA). A strong FTAA—not the watered-down version the United States and Brazil said they were prepared to pursue last year—could boost regional

economic growth by expanding markets for Latin American producers and stimulating added flows of foreign investment and new technology. A robust hemisphere trade pact would also firmly lock in the policy reforms that have been widely adopted across the region in the past 15 years and help to reinforce transparency and property rights.

Most Latin American nations are not sitting back and waiting for the completion of the Doha Round or the FTAA. They are instead seeking to forge bilateral free trade arrangements with the United States to generate new export and investment opportunities. Canada and two Latin American countries—Mexico and Chile—have free trade pacts in force with the United States. The Dominican Republic and the five Central American nations have concluded a free trade accord with Washington which now requires legislative ratification; four other Latin American countries are actively negotiating similar accords. In addition to opening access to the huge U.S. market, these agreements—if ratified—would strengthen trade and investment rules and more securely anchor domestic reforms. But bilateral pacts are, at best, a stop-gap measure. They are not long-term substitutes for a comprehensive and balanced FTAA, which will bring every economy in the Americas together in a single, inclusive arrangement.

With few exceptions, the free trade pacts that Latin American governments have negotiated among themselves have fallen short of expectations. Even the largest and most important, the Mercosur customs union (incorporating Brazil, Argentina, Uruguay, and Paraguay), has been only partially successful—mainly because the participants have not consistently enforced their own rules. Although these agreements have generated some new trade opportunities, they have brought little new technology and investment to the region. Led by Brazil, the countries of South America last year took preliminary steps to establish a continent-wide, European-style regional community, but it is still too early to measure its chances of success.

POLITICAL AND SOCIAL CHALLENGES

In the past half-dozen years, an economically distressed Latin America has become more politically unsettled, socially troubled, and difficult to govern—even as democratic politics have shown remarkable resilience. The economic rebound in 2004 and 2005 has bolstered public support for some Latin American governments. Although not yet evident in many places, it could also help reduce social and political tensions more broadly in the region—by creating new jobs, alleviating severe budget austerity, allowing greater anti-poverty expenditures, and building more confidence in national leaders. These advances are badly needed.

*Venezuela and Haiti today
hardly qualify as democracies.*

Cuba is the only Latin American country that remains under authoritarian rule. But Venezuela and Haiti today hardly qualify as democracies. In many other Latin American nations—Bolivia, Ecuador, and Nicaragua, for example—democratic rule is precarious and under continuing threat.

In Venezuela, President Hugo Chávez's six-year-old government has sharply restricted democratic competition and badly damaged the nation's representative institutions. To be sure, Chávez maintains a significant measure of popular support and has managed to win a long series of elections, including last year's all-important referendum on whether he should remain in office. But he has eliminated most checks on his power and stifled the activities of opposition groups. He has packed the Supreme Court with his supporters, harassed civil society groups, and secured congressional approval for laws curtailing freedom of the press. His rule has divided the country and could yet provoke open political strife. Venezuela, moreover, is a potential source of regional instability. As long as oil prices remain high, Chávez will have the resources to stir up further the already unsettled politics of neighboring countries.

Haiti may not yet be a failed state, but it is perilously close. Last year, the democratically elected, although increasingly violence-prone and corrupt, government of Jean-Bertrand Aristide was forced from power by armed bands. Today, more than a year after his ouster, Haiti's political system barely functions and remains dangerously polarized. The current interim administration exercises only limited control and authority. The security climate in Haiti is badly degraded, with violent gangs operating with a high degree of impunity in much of the country. The economy is stagnant, jobs are scarce, and social needs go largely unmet. Presidential and legislative elections scheduled later this year may give Haiti a new start, but—under the best of circumstances—the country will require continuing, substantial outside support to meet even minimal security and economic needs.

*Democratic politics are close to breaking down
in Bolivia, Ecuador, and Nicaragua.*

It is encouraging that, for the first time ever, a group of Latin American nations—under Brazil's leadership—has taken charge of a UN peacekeeping mission to ensure Haiti's security. Moreover, bilateral and multilateral lenders have committed some \$1.3 billion in aid to Haiti. Yet the peacekeeping force has so far had only mixed success, while funds are being disbursed at a snail's pace and doing little to alleviate Haiti's suffering. The United States, which exerts enormous influence in Haitian politics, has still not been able to overcome its partisan divide over the country and develop a coherent or effective strategy toward it. Haiti cannot emerge from its current misery without long-term economic and security support, and perhaps even some form of political tutelage, from the international community.

Bolivia, Ecuador, and Nicaragua each retain, at least superficially, many of the features of a functioning democracy and constitutional order. But weak institutions, fractious politics, and deep social divisions have

made it hard to govern these nations. Democratic politics are close to breaking down in each of these countries.

Violent clashes forced Gonzalo Sánchez de Lozada to resign as president of Bolivia in October 2003. Vice President Carlos Mesa, who replaced him, was similarly ousted by roadblocks and massive street protests in June 2005. Bolivian politics is disorderly and confrontational. The hostility and distrust among different regions and ethnic groups is blocking economic progress and threatens the unity of the country.

In April, Lucio Gutiérrez became Ecuador's third elected president in a row to be driven from office by popular demonstrations against his rule. Ecuador's constitutional norms, which Gutiérrez had earlier ignored when he dismissed nearly every member of the Supreme Court, were again violated when Congress voted to oust him from power, even though he was replaced by the nation's vice president. The country's political parties consistently break the democratic rules as they jockey for power. With Ecuador's politics dangerously polarized along ethnic and regional lines, the new government will face extraordinary difficulties in exercising authority.

Nicaragua's elected president can barely govern the nation. An alliance of corrupt legislators from both the left and right have taken control of Parliament and the country's judicial system. They have already made it virtually impossible for President Bolaños to carry out his responsibilities and threaten to force him from office.

Although they are not confronting crises, the politics of several other countries are troubled and could deteriorate. In Peru, despite several years of strong economic growth, President Alejandro Toledo is rejected by nearly 90 percent of voters. Guatemala remains divided between urban residents of largely European origin, who hold most of the country's power and wealth, and the rural, mostly poor, indigenous population. Governments in Honduras and El Salvador are challenged

by the growing size and virulence of youth gangs and the violent backlash they are provoking among ordinary citizens.

The political news from Latin America is not uniformly bad. Democracy in Chile is robust. The government continues to remove the vestiges of Pinochet-era restrictions and is breaking new ground on human rights. Over the past half-dozen years, through economic crisis and political change, Brazil's democracy has become increasingly vigorous. While a newly democratic, politically competitive Mexico is proving hard to govern, there is little prospect the country will reverse course and return to one-party, authoritarian rule. Argentina's devastating financial collapse in 2001 threw the country into political crisis, but democratic politics prevailed. Uruguay suffered similar economic setbacks, yet its well-established democracy was hardly shaken. And although the lucrative drug trade, guerrilla and criminal violence, and widespread human rights abuses continue to put Colombia's democratic institutions at risk, the government of Álvaro Uribe has made progress toward reestablishing national authority and the rule of law. Despite their many problems, democratically elected governments remain in power across Central America.

Since 1976, in a region once known for military coups d'états and lengthy dictatorships, there has been only one military takeover of power from a freely elected government (in Haiti). Not a single military regime governs in the region today. Notwithstanding the poor economic and social performance of many of Latin America's democratic governments in the past two decades, a solid majority still consider democracy the best form of government.

THE SOCIAL AGENDA

The nations of Latin America and the Caribbean have registered social advances in the past 25 years. Illiteracy has been cut by more than half since 1980, and primary school enrollment across the region has jumped from 85 to 95 percent. Infant mortality has dropped

by about 60 percent, and life expectancy rose by six years to 72. Most governments now spend more on social programs than ever before.

These developments, however, should not obscure the elevated rates of poverty and inequality throughout Latin America. The gap between rich and poor remains worse here than in any other region of the world. Because of that gap, Latin America has to grow twice as fast as Asia to achieve similar reductions in poverty. Poverty rates in Latin America are double those of the Middle East, even though the two regions have similar levels of per capita incomes.

*Latin America has to grow twice as fast as Asia
to achieve similar reductions in poverty.*

Worse yet, there is much evidence that economic growth itself is stymied by the region's high levels of inequality. This leaves Latin America in a vicious circle. Because of the region's skewed distribution of income and wealth, it takes very high rates of growth to reduce poverty. Yet that same skewed distribution keeps Latin America's growth low. Moreover, Latin America's massive inequalities make governing more difficult. Huge differences in income and wealth divide and polarize the populations of many countries, leaving citizens with tenuously shared values and many divergent interests. The problems are compounded in countries where racial and ethnic differences reinforce economic and social inequality.

No one should expect that Latin America's deep and pervasive inequalities will soon be remedied. Experience in country after country across the world has demonstrated how difficult it is to alter the distribution of income and wealth in any significant way. Still, governments are not powerless. They can make progress toward greater equity and fairness, although it will not be politically easy. Governments could, for example, curb the multiple subsidies they now provide to the middle class and wealthy, and reallocate the resources to poorer and more vulnerable groups. They can also take measures to make high-income groups pay

their taxes. A sustained commitment to combat public and private discrimination against indigenous groups and African descendants could make a decisive difference in many countries, along with initiatives to widen opportunities for women.

*Education in much of the region reinforces
and sustains national inequalities.*

In virtually every country of Latin America, highest priority needs to be given to school reform and new investments in education. These measures are vital not only for attacking inequality and poverty, but for building solid foundations for long-term growth. School enrollments have expanded dramatically in Latin America. In many countries, almost every eligible youngster is attending primary school, and the numbers of secondary school students are rising rapidly. But the quality of education remains mediocre. On international tests, Latin American students score in the bottom tier. Instead of promoting social mobility and greater equality, education in much of the region reinforces and sustains national inequalities, a reflection of the huge differences in the quality of public and private schools and of the small fraction of students who attend universities.

Violent crime—which mostly harms the poor—is a critical social challenge, as well as a security and political problem. Crime is debilitating communities, governments, and economies throughout Latin America and dimming prospects for the region’s future. Along with economic failure and joblessness, street crime and violence have most discredited democratic governments in the region. Latin America leads the world in kidnappings, and its homicide rate is twice the global average. Nearly every city and town is more dangerous and violent than it was even a half-dozen years ago. In Central America and Mexico, youth gangs are creating turmoil. Brazil has considered using its army to battle criminals in Rio de Janeiro. Public pressures on governments to crack down on criminal activity are mounting and, in some places, threaten civil

liberties and individual rights. Vigilante groups in some countries are acting on their own, outside of legal or judicial constraints.

Not much progress can be expected in Latin America's battle against violent crime unless the nations of the region begin to grow steadily, curb unemployment, and deal effectively with other social problems. Governments also must find a way to address the corruption, disarray, and inadequate financing that plague their police forces and judicial systems. And every country needs to do more to battle the illicit drug trade. Narcotics are not the only—or even the main—source of crime and violence in Latin America, but they make the situation far more volatile and destructive in country after country. Although there have been recent advances in drug eradication in key producing countries in the Andes, these should not be mistaken for serious progress in the battle against narcotics trafficking and its deadly consequences. The most difficult tasks are to build the authority of governments to enforce their own laws and to replace drug cultivation as a significant source of employment and livelihood.

PARTING WAYS: THE UNITED STATES AND LATIN AMERICA

The troublesome domestic situations of so many Latin American nations are compounded by the region's strained relations with the United States. Few Latin American governments today view the United States as a reliable partner.

In its 1992 policy report, the Inter-American Dialogue applauded an accelerating trend toward greater political and economic cooperation between the United States and the countries of Latin America and the Caribbean. The report, *Convergence and Community*, called for the formation of a hemisphere-wide community of nations. It argued that, with the end of the Cold War and Latin America's turn toward democratic politics and market economics, there was a strong foundation of shared values and interests on which such a community could be built.

The prospects for enhanced regional cooperation were advanced by President George H.W. Bush's 1990 proposal for a hemisphere-wide free trade zone, which most Latin American governments welcomed enthusiastically. Resolutions by the Organization of American States (OAS) committing member nations to protect democracy through collective action were first approved in 1991 (and subsequently codified in 2001 as the Inter-American Democratic Charter). Another critical step forward was the Clinton administration's decision to organize a Summit of the Americas in Miami in December 1994; this brought together, for the first time since 1967, the elected heads of state of every country of the hemisphere and formally launched the FTAA negotiations.

Today, a dozen years later, hemispheric cooperation is faltering. It is the division among the countries of the hemisphere, not their convergence, that now demands attention. Negotiations toward the FTAA have been stalled for several years. The four summit meetings held since 1994 have not produced much progress toward a common inter-American agenda. Disagreements among member states are obstructing the work of the OAS on issues of democracy, elections, and human rights—and have effectively blocked any systematic implementation of the Democratic Charter.

The hemispheric divisions have multiple origins. The Clinton administration was never able to gain U.S. congressional approval for needed negotiating authority, making it impossible for Washington to pursue the regional trade agenda it had earlier promoted. At the turn of the century, economic recession and political turmoil in many nations had soured the mood across Latin America and fueled opposition to free trade, globalization, and other policy reforms. Then, following the 9/11 attacks on New York and Washington, the United States shifted its foreign policy attention to security matters—international terrorism, nuclear proliferation, rogue states, and the war in Iraq. Aside from Mexico and Canada, which share lengthy borders with the United States, the Western Hemisphere became largely peripheral to Washington's main international concerns. Most Latin American governments opposed the aggressive unilateralism

of U.S. foreign policy in Iraq and elsewhere. Washington, in turn, has made clear its disappointment with the lack of Latin American support for its security policies. Anti-Americanism has reemerged as a factor in inter-American relations.

Still, the United States and the nations of Latin America, with the exceptions of Cuba and Venezuela, have not become adversaries. Cooperation continues on a great variety of fronts. Regardless of their dissatisfaction with recent U.S. foreign policy, most nations of the hemisphere see their future linked in varying degrees to the United States and want to strengthen their relations with Washington.

*Anti-Americanism has reemerged as a factor in
inter-American relations.*

Some countries, such as Mexico, Central America, and many Caribbean states, have particularly close ties, relying heavily on the United States for export markets, access to international capital and technology, and remittance income from immigrant communities. Colombia depends on U.S. support in its battle against drug criminals, guerrillas, and paramilitary forces; to a lesser extent, other Andean countries also look to the United States for assistance in battling the drug trade. Like Mexico, Canada, and Chile, the nations of Central America and the Dominican Republic have signed a free trade pact with the United States (CAFTA). Panama is currently negotiating an agreement with Washington, as are three countries of the Andean region—Colombia, Ecuador, and Peru—and Bolivia is an observer at their talks. Whether the United States will be able to secure congressional ratification of CAFTA and the other agreements is still uncertain, however.

Clearly, CAFTA ratification would be an important sign of continuing U.S. commitment to regional free trade—and broader cooperation with the region. Its defeat by Congress, which many now predict, would close off Washington's most promising opportunity for engag-

ing Latin America. CAFTA's failure would likely bring negotiations for the FTAA to a halt, and set back the U.S. agenda in Latin America on many other fronts. If the United States is unable to make good on its promise to open its markets to five small Central American nations and the Dominican Republic, the prospects for building significant partnerships with other Latin American nations—whether on economic or political matters—will diminish sharply. Latin American advocates of closer U.S. ties will lose influence across the region, while Washington's adversaries will gain new ground.

*CAFTA's failure would set back the U.S. agenda
in Latin America on many fronts.*

Brazil and Argentina have less at stake in their relations with Washington and are pursuing more independent and diverse foreign policy courses; this sometimes puts them at odds with the United States—and with those Latin American countries that have established close links with Washington. Brazil has for several years made plain its opposition to the FTAA unless the United States is prepared to substantially change its agricultural support policies. This and other U.S.-Brazilian disagreements have been the main reason for the current impasse in the hemispheric trade negotiations (and why Washington has looked instead to pursue a series of bilateral trade deals). Brazil has recently been emphasizing the development of a European-style South American community that would allow for even greater autonomy from the United States. By excluding Mexico and Central America, this initiative would reinforce the growing divide between the Northern and Southern countries of Latin America.

Nevertheless, Brazil continues to work closely with the United States on many issues and maintains a largely constructive relationship with Washington. Encouraged by the United States, Brazil has, for the past year, led a UN peacekeeping mission in Haiti, joined by troops from Chile, Argentina, and Uruguay, among others. Brazil and other

South American countries have refused to follow Washington's lead and press openly for political change in Venezuela or publicly criticize that country's international policies, but they have helped moderate Hugo Chávez's actions. And, despite their conflicts over trade, Brazil and the United States have collaborated to advance common goals in the Doha Round of global trade negotiations. Brazil is also looking to Washington to support its aspiration to secure a permanent seat on the UN Security Council.

In short, the United States is working effectively with many countries of the hemisphere on a range of issues, particularly on trade and other economic matters. But so far, the Bush administration has not demonstrated either the interest or capability to pursue a longer term cooperative policy in the Americas that would mobilize the support of Latin American nations and help buttress democracy and economic progress in the region. FTA negotiations remain at a standstill. The Summits of the Americas have diminished in importance. And the OAS, while it has played a constructive political role in a number of countries, has proven unable in recent years to do much to protect democratic practice in such places as Venezuela, Haiti, Bolivia, Nicaragua, and Ecuador, where it is most threatened. The new secretary-general of the OAS, José Miguel Insulza, faces enormous challenges in moving a divided hemisphere toward greater cooperation for democracy.

LOOKING TO THE FUTURE

Latin America's future depends on many factors. A vibrant world economy, coupled with moderate international interest rates, would certainly increase the likelihood for steady growth in the region—which would, in turn, improve prospects for democratic stability and social advance. On the other hand, a worldwide economic slump, perhaps triggered by worsening global economic imbalances, could reverse Latin America's recent economic gains, provoke full-fledged financial crises in some countries, and possibly deepen the region's social and political conflicts. A more engaged and cooperative

United States could surely play a helpful role in Latin America in the coming period.

But Latin America's longer term prospects will depend mostly on whether the region's governments are able to take the measures necessary to make their own economies and societies stronger, more resilient, and more just. It is mainly up to each Latin American country to reinforce its own economy and shore up its institutions so that they are less vulnerable to international and regional crises—and better able to take advantage of opportunities provided by positive global developments.

*Latin America's nations must do a better job of
serving the needs of their citizens.*

Latin America confronts four interlinked challenges that must be addressed in tandem. After a quarter-century of limited growth, most Latin American and Caribbean nations today need to achieve sustained, robust economic expansion over many years. Without economic progress, there is little prospect that the region can deal meaningfully with its central problems of poverty and inequality, crime and violence, and political and institutional instability. Yet unless effective measures are taken now to begin addressing these problems directly, Latin America's growth will continue to be hobbled. Sustained growth in the region requires that inequality be reduced, institutions strengthened, and personal security enhanced.

Most of Latin America's economies are far better managed today than they have been in the past. But economic success and social advance will require other fundamental changes—including new measures to expand foreign trade; greater investments in energy, communications, and transportation; mechanisms to bolster national savings and increase tax revenue; and effective programs to reduce poverty. Improving the dismal quality of education across Latin America demands particular attention. Increased national commitments to and larger investments

in public schools are vital to increase long-term productivity and create more equal societies. Latin America's future can be brighter, but only if the region's nations do a better job of managing their economies, strengthening their institutions, and—most of all—serving the needs of their citizens.

SUPPLEMENTAL COMMENTS

Lee Cullum

As a journalist, I cannot endorse this report, but I certainly respect the seriousness with which it is written. This is a sobering assessment that compels the attention of policy makers.

Karen DeYoung

As a practicing journalist who covers U.S. policy, I cannot offer a judgment regarding the report's recommendations.

Barbara J. McDougall

This year's plenary report, despite the challenges it examines, provides reasons for hope, even optimism, as important progress has been made on several fronts. I want to reinforce the need for international support for democracy, particularly in Haiti. Stronger and more stable countries must be urged to lead the way, including Canada and the United States. I also want to commend another excellent Dialogue report showing the progress of Latin American women in business. This significant achievement adds to the base of potential future leaders.

Peter McPherson

Cuba is a marked and sad exception to the spread of democracy in Latin America. While Latin America generally struggles to strengthen open political systems and overcome the threats facing them, the government of Cuba will not allow even the most minimum democratic practices on the island. Though this is not a new situation, it deserves our strong protest and continuing efforts to bring Cuba into the hemisphere's community of democracies.

INTER-AMERICAN DIALOGUE

MEMBERS FROM LATIN AMERICA, THE CARIBBEAN, AND CANADA

Andrés Allamand is development director at the Universidad Adolfo Ibañez, a private university in Chile. He was a founder and president of the National Renovation Party of Chile. He served as a member of congress from 1993 to 1997. He was also the vice president of United Parties of Latin America and the Pacific Democratic Union.

Nicolás Ardito-Barletta was president of Panama from 1984 until 1985 and minister of economic policy. He was World Bank vice president for Latin America and the Caribbean, and founder and president of the Latin American Export Bank. He now serves as president of the board of the Panamanian Development Corporation.*

Lloyd Axworthy was minister of foreign affairs of Canada from 1996 until 2000. He is now director and CEO of the Liu Centre for the Study of Global Issues at the University of British Columbia. First elected to the Canadian Parliament in 1979, he served as minister of employment and immigration, minister of transport, minister of human resources development, and minister responsible for the status of women.

Roberto Baquerizo is managing director of ProVentures, a New York-based consulting and investment firm. He was governor of the Central Bank of Ecuador.*

Epsy Campbell Barr is a representative in the Costa Rican National Assembly and leader of the Citizen Action Party. She is a member of the Network of Afro-Latin American and Caribbean Women.*

F. Carl Braun is chairman and CEO of UNIBANK, a Haitian commercial bank, and of Groupe Financier, a financial services and investment group.*

Fernando Henrique Cardoso was two-term president of Brazil. He was also a senator from São Paulo and served as both finance and foreign minister. Cardoso was a founding member of the Inter-American Dialogue.*

Edwin W. Carrington is secretary-general of the Caribbean Community (CARICOM) from Trinidad and Tobago.

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

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José María Dagnino Pastore is professor of economics at the Catholic University of Argentina. He has served as minister of finance, minister of economy and labor, head of the National Development Council, and ambassador-at-large in Europe.*

Fernando Espuelas is co-founder and chairman of VoyGroup. He was managing director of marketing communications for AT&T Caribbean and Latin America. Espuelas is a native of Uruguay.

Lourdes Flores Nano served as a member of Congress in Peru from 1990 to 2000, and was a candidate for president in 2001. She is president of the Popular Christian Party and the National Unity Alliance. She practices law in her private firm.*

Alejandro Foxley is a national senator, and was finance minister of Chile.*

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José Ángel Gurría was Mexico's minister of finance from 1998 to 2000 and minister of foreign relations from 1994 to 1998. He has served as president and CEO of the National Bank of Foreign Trade, and president and CEO of National Financiera.*

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Barbara J. McDougall was Canadian secretary of state for external affairs, minister of state (finance), minister of privatization, and minister of employment and immigration. She recently stepped down as president of the Canadian Institute of International Affairs, and is now an advisor with the firm Aird & Berlis.*

Jorge Montoya was president-global snacks & beverages and president-Latin America for Proctor & Gamble. He was born in Peru and now resides in Venezuela.

Roberto H. Murray-Meza is chairman of BevCo, the largest brewing and bottling operation in Central America, and chairman and CEO of AGRISAL. He is president of FUNDEMAS, a foundation dedicated to promoting corporate social responsibility in El Salvador. He was president of the Social Investment Fund and under-secretary of culture.*

Moisés Naím is editor of *Foreign Policy*. He was Venezuela's minister of trade and industry.*

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Gabriela Núñez de Reyes was minister of finance of Honduras. Before announcing her candidacy for president, she was executive vice president of Banco Atlantida, among the largest private banks in Honduras.*

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Nina Pacari Vega was foreign minister of Ecuador, a member of Congress, and second vice president representing the Pachakutik Movement. She is a legal advisor for the Confederation of Indigenous Nationalities of Ecuador (CONAI) and was a representative to the National Constituent Assembly charged with drafting a new constitution.

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Marta Lucía Ramírez de Rincón served as Colombia's minister of defense and as minister of foreign trade, as well as ambassador to France. She is a private consultant in international strategy.*

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Juan Manuel Santos was Colombia's vice president and minister of trade during the Gaviria administration. More recently he served as minister of finance. He is now president of Fundación Buen Gobierno.*

Jesús Silva-Herzog was finance minister of Mexico and ambassador to the United States and Spain.*

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Joyce Chang is global head of emerging markets and global currency and commodities research at JP Morgan Chase & Co. Previously, she was a managing director at Merrill Lynch and Solomon Brothers.*

Lee Cullum is a columnist who contributes frequently to *The Dallas Morning News* and who has done regular commentary for the *NewsHour with Jim Lehrer*.*

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David de Ferranti is former World Bank vice president for Latin America and also served as the Bank's vice president for work in the areas of education, health, nutrition, population, and social protection. He has also held leadership positions in government and the private sector.*

Karen DeYoung is on sabbatical from her position as associate editor at *The Washington Post*. She is currently a visiting scholar at the Carnegie Endowment for International Peace.*

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Maria Echaveste was assistant to the president and deputy chief of staff in the Clinton White House. Before that she was administrator of the U.S. Department of Labor's Wage and Hour Division, and the national Latino coordinator for President Clinton's 1992 campaign.

Maurice A. Ferré served twelve years as mayor of Miami and was vice chairman of the Metropolitan Dade County Commission.*

Richard W. Fisher is president of the Federal Reserve Bank of Dallas and managing partner at Kissinger McLarty Associates. He served as deputy U.S. trade representative in the Clinton administration. Fisher was Texas Democratic nominee for the U.S. Senate in 1994.

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William L. Friend is treasurer and member of the Council of the National Academy of Engineering, chairman of the University of California's Presidents Council on the National Laboratories, and former chairman of the Institute of the Americas. He retired from Bechtel Group, Inc., as executive vice president and director.*

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Bob Graham (D-FL) was a U.S. senator from Florida (D). He was ranking member of the Senate Committee on Veterans' Affairs, and a senior member of the Finance, Environment and Public Works, and Energy and Natural Resources Committees. He served as governor of Florida.*

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William Hybl is chairman and CEO of El Pomar Foundation. He also served as U.S. representative to the 56th General Assembly of the United Nations and is chairman of the International Foundation for Election Systems.*

Alberto Ibarguen will become president and CEO of the John S. and James L. Knight Foundation on July 18, 2005. He was publisher of *The Miami Herald* and chairman of The Miami Herald Publishing Co.*

Jim Kolbe (R-AZ) serves in the U.S. House of Representatives. He sits on the Appropriations Committee as chair of the Subcommittee on Foreign Operations and Export Financing, and is senior member of the subcommittees on Interior and on Commerce, Justice, State and Judiciary.

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Cardinal Theodore E. McCarrick is archbishop of Washington, D.C. For the Vatican, he serves on the Pontifical Commission for Latin America.*

John McCarter is former president and CEO of GE Latin America.*

Thomas F. McLarty III was President Clinton's special envoy to Latin America and chief of staff. He is now president of Kissinger McLarty Associates.*

Peter McPherson is president emeritus of Michigan State University. He is a founding co-chair of the Partnership to Cut Hunger and Poverty in Africa. He was deputy secretary of the U.S. Treasury and administrator of USAID.*

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Martha T. Muse is chairman of the board of The Tinker Foundation—a private foundation dedicated to supporting projects related to Spain, Portugal, Latin America, and the Caribbean—and served for many years as its president. She was the first woman to be elected to the Board of Trustees of Columbia University.*

Luis Nogales is managing partner of Nogales Investors, a private equity firm. He was president of Univision and CEO of United Press International.*

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Bill Richardson is governor of New Mexico. He served as the U.S. secretary of energy—the highest ranking Hispanic in the Clinton administration—also as U.S. ambassador to the United Nations. Before that, he was elected eight times to represent New Mexico’s 3rd Congressional District in the U.S. House of Representatives.

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Lawrence Summers is president of Harvard University. He served as U.S. Treasury secretary from 1999 to 2000, after four years as deputy secretary and two years as undersecretary for international affairs. Before joining the Clinton administration, Summers was vice president of development economics and chief economist of the World Bank.

Bob Taft is Republican governor of Ohio. He was secretary of state of Ohio and member of the Ohio House of Representatives.

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* Signers of the report.



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