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Inter-American Dialogue

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Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting the Editor at rsimpson@thedialogue.org

Featured Q&A *With Our Board of Advisors*

Q With much of the presidential foreign policy debate focusing on Iraq, there appears to be little talk or understanding of the differences between Bush and Kerry on Latin America policy. Where, if anywhere, do the two diverge on key Latin America policy issues? Should Latin America expect four years of "benign neglect," regardless of who is elected?

A Guest Comment: Riordan Roett: "The prospects for a change in direction of US policy in the Hemisphere are uncertain. No matter who wins the presidential election in November, 2005 will be devoted to rebuilding the transatlantic alliance, coming to grips with the failure of the flawed nation-building effort in Iraq, and the continuing concern over international terrorism. The FTAA is unlikely to produce a major breakthrough. FDI continues to prefer growing Asia over stalemated Latin America. The region, if growth in Asia continues, is rediscovering its comparative advantage in producing and exporting raw materials—not a positive turn if one is seeking to reduce poverty and increase employment. Commodity production in this century is increasingly machine and technology driven, with little demand for unskilled labor. The tragedy is that the region's problems will continue to deteriorate. The increased tension between Colombia and Venezuela will worsen. The drug strategy of the US is moribund. Indigenous movements are increasingly legitimate and threaten traditional and outworn elitist political institutions. And millions of people from the region will head north, often depriving their societies of the best and the brightest."

A Guest Comment: Steve Johnson: "Regardless of who is elected president of the United States this November, Latin America deserves more than benign neglect. Whether it will get better treatment is a big 'if.' In the early 1990s, the collapse of the

Continued on page 4

PHOTO OF THE DAY

Mexican President Vicente Fox, right, speaks to reporters during a joint press conference with Spanish Prime Minister Jose Luis Rodriguez Zapatero at the start of a summit of European and Latin American leaders in Guadalajara. See related story on page 2.

Photo: Agencia de Noticias.

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NEWS BRIEFS

Argentina Starts Taxing Natural Gas Imports with 20 Percent Levy

The Argentine government on Wednesday imposed a 20 percent tax on natural gas exports. The tax is part of a program to cope with the worst energy crisis in Argentina in 15 years. Economy Minister Roberto Lavagna said the tax would pull in about $40 million for the state treasury. In response to concerns that the tariff would cause conflict with the oil industry, Lavagna said that "natural gas was the only [hydrocarbon] that did not pay export taxes."

Source: La Nacion.

JP Morgan Recommends Reduced Exposure to Emerging Markets

JP Morgan on Wednesday recommended investors reduce their overall exposure to emerging market sovereign bonds amid expectations of interest rate increases in the United States. "We reduce our overall exposure to the market following the short-covering rebound of the last two weeks, as we believe that the external risks for emerging markets are still high," the investment bank said. JP Morgan lowered its recommendations for Brazil, Turkey, and Ecuador to "underweight," while increasing Bulgaria, Chile, and Tunisia to "marketweight."

Source: Reuters.

US to Leave Haiti by End of June

The United States will pull its 1,900 troops out of Haiti by the end of June. The US withdrawal will take place as a United Nations force, led by Brazil, takes over peacekeeping duties in the Caribbean nation. "We'll have all the Marines home by the end of June unless something significantly changes," said Brig. Gen. David Rodriguez.

Source: Reuters.

Economic News

Brazil's High Court Suspends Ruling on Pension Tax

Brazil's Supreme Federal Tribunal (STF), the country's highest court, on Wednesday suspended a ruling on the legality of a tax on the pension benefits of retired state workers, Reuters reported. With two of the STF's 10 ministers voting against the tax and one in favor, STF Minister Cezar Peluso requested the session be suspended for a minimum of 30 days in order to give ministers more time to consider the issue. One of the ministers to vote against the tax, Ellen Gracie, had been expected by some analysts to support it. But Gracie argued the levy constituted a "double tax," as workers had already paid contributions to receive the benefits. The tax is part of a pension reform package proposed by President Luiz Inacio "Lula" da Silva and approved by Congress in December. The reforms, which put a cap on pensions for future civil servants, raise the retirement age, and slap a social security tax on retired public servants, are expected to save Brazil some 50 billion reais ($US 15.8 billion) over 20 years. The tax on retirees would save the government as much as 1.4 billion reais per year. The STF ruled against a similar proposal by former President Fernando Henrique Cardoso in 1999.

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Political News

Death Toll From Flooding in DR, Haiti Nearly 2,000

The floods and landslides that swept through the Dominican Republic and Haiti on Monday have so far claimed at least 1,950 lives, with several hundred people still missing, Reuters reported Wednesday. In Haiti, the death toll was 1,660, with 1,000 of those deaths discovered in the rural southeastern town of Mapou. In the Dominican Republic, officials said the death toll from the tragedy—precipitated by days of torrential rain—had reached 300, with most of the deceased from Jimani, a town near the Haitian border. Dominican President Hipolito Mejia declared today a national day of mourning as a result of the tragedy. US-led peacekeepers in Haiti to restore order after the forced departure of former President Jean-Bertrand Aristide in February flew relief workers to Fond Verettes, where some 158 residents perished in the floods. Haitian residents struggled to pull their belongings from the mud. Haiti's acting interior minister, Bernard Gousse, said his country's fledgling government would send supplies to communities impacted by the disaster. "We are sending shelters and food supplies to affected areas," said Gousse. In the Dominican Republic, trained sniffer dogs helped with the effort. The European Union is preparing a $2.43 million aid package for the Dominican Republic and Haiti's flood victims.

EU, Latin American Leaders to Condemn Abuse of Iraqi Prisoners

The European Union and Latin American countries are preparing a draft declaration condemning the abuse of Iraqi prisoners by US soldiers, the Associated Press reported early today, citing Mexico's deputy secretary of economic relations and international cooperation, Lourdes Dieck. Dieck said the draft declaration being prepared at this week's summit of European and Latin American leaders in Mexico "condemns and expresses the consternation of the region with respect to the torture of human beings and prisoners of war, and there is a specific mention of the recent events in Iraq." The release early this month of photos showing US soldiers humiliating naked detainees at the Abu

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Ghraib prison in Iraq has provoked an international outcry and raised questions about the US commitment to democracy and human rights in the country. However, Spanish Prime Minister Jose Luis Rodriguez Zapatero, who this month fulfilled a promise to pull his country's troops out of Iraq, said yesterday that leaders at this week's summit in Mexico should not denounce the US as a whole. "Those who should be condemned, those who should assume responsibility are logically those who did wrong, not a people, not a country," Rodriguez Zapatero told reporters during a joint press conference with Mexican President Vicente Fox, according to Reuters. The final declaration will be signed on Friday.

Toledo Proposes Tougher Penalties for Protesters in Peru

Peruvian President Alejandro Toledo said Wednesday he would send a bill to Congress imposing stiffer penalties on protesters who block roads and create disturbances, Reuters reported. "Democracy yes, disobedience and disorder no," Toledo said in a surprise, nationally broadcast speech. "No minority on the fringes of the law can impose its way of thinking through force." The president's announcement follows two months of protests by coca growers demanding protection of their crops from US-backed eradication efforts, as well as by striking health workers, miners, and port workers. The Andean country's largest union, CGTP, is planning a general strike for July 14, the union's first strike in nearly four years. Toledo, whose approval ratings are in the single digits, said that some protests, namely in the southern border town of Ilave and the coca-growing area of Tingo Maria, were being driven by smugglers and drug traffickers. Peasants in Ilave yesterday agreed to end protests after the government agreed to withdraw security forces from the town and to address community grievances.

Chile: Maritime Access Dispute with Bolivia Nobody Else's Business

Chile said Wednesday its dispute with Bolivia over Bolivia's claim to maritime access is strictly limited to bilateral discussions, rejecting an Argentine offer to mediate the dispute, reported Chilean newspaper *La Nacion*. Chile's minister of government, Francisco Vidal, said that another country's opinion would not change Chile's opinion. "This is a bilateral issue that involves Chile and Bolivia and no one else," he said. Bolivia has long demanded that Chile return coastal land taken in a 19th century war, depriving Bolivia of maritime access. Earlier yesterday, the Argentine ambassador to Bolivia, Horacio Macedo, told reporters that "as a member of Mercosur, it is in Argentina's interests that [Bolivia's maritime claim] be resolved as soon as possible." Argentina's first lady, Senator Virginia Fernandez de Kirchner, recently declared that Argentina will do everything possible to act as an intermediary between Bolivia and Chile. Bolivian President Carlos Mesa said Sunday that Bolivia's role is to facilitate the axis of energy in the region, but emphasized that integration would be impossible unless Bolivia and Chile resolved the maritime access issue. Bolivia is likely to put the issue on the table later this week during a summit in Mexico between the leaders of Latin America, the Caribbean, and the European Union. This Friday will also mark the beginning of Bolivian gas exports to Argentina to alleviate Argentina's energy crisis. Bolivia has conditioned the supply of gas to Argentina on the requirement that the gas not be diverted to Chile. Argentina has slashed natural gas exports to Chile by some 25 percent in the face of its worst energy crisis in 15 years.

Subscriber Notice

Discussion on the Business Climate in Argentina

with

Miguel Gutierrez
Board Member, Telefonica de Argentina

Carlos Tramutola
President, STRAT Consulting

Thursday, June 3, 2004
8:30 - 10:00 a.m.
Inter-American Dialogue
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Featured Q&A

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Soviet empire took away funding for democracy programs that were beginning to achieve success in the region. Now, nation-building commitments in the Middle East may keep Latin America off the radar screen for the next few years. Democracy has not developed much beyond elections in many countries, economic half-reforms have not opened up markets to small- and medium-sized businesses, and subversion by guerrilla groups and international criminal organizations has not been defeated. The Clinton and Bush administrations have helped Colombia begin to address its conflict, but only because doing so might reduce drug trafficking—a problem that concerns the US public. It's possible that a Kerry White House might do some things different, like go easier on the Castro regime—but growing constituencies within the Democratic Party are committed to supporting the island's dissidents and their struggle for a democratic transition. Kerry could be swayed to return failed despot Jean Bertrand-Aristide to Haiti, but he's already found out from some of his advisers what a disaster that would be. In either eventuality, November's winner would be wise to promote ongoing trade negotiations with Latin American countries to open markets for US businesses and help stabilize Latin economies against the advance of cheap Chinese labor. The next administration should also advocate the rule of law to a greater degree, encourage political parties to become more democratic (internal elections, holding primaries, etc.), and propose common protocols for pursuing international criminals and terrorists. That's a big agenda, and the next administration will need a full complement of proactive political appointees to carry it out."

> "... November's winner would be wise to promote ongoing trade negotiations with Latin American countries to open markets for US businesses and help stabilize Latin economies against the advance of cheap Chinese labor."
>
> ***– Steve Johnson***

A Board Comment: Beatrice Rangel: "Whether benign neglect is here to stay largely depends on events in the Middle East. Should the war in Iraq trigger further instability in Saudi Arabia and other oil-producing countries or bring about a major oil disruption, Latin American stocks might go from common to preferred in the US geopolitical market. Indeed, the region could easily satisfy US energy needs over the long run and in a secure manner. One drawback of benign neglect is that incentives were not set in place in a timely fashion for the right investments in energy to happen. Or perhaps by the time these unfortunate events take place in the Middle East, energy-rich nations in Latin America could be in the midst of internal turmoil or harboring strong anti-US sentiments. Under such circumstances, benign neglect will not be an option but a dead end."

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Beatrice Rangel *is a member of the* Advisor *board and Senior Advisor to the Chairman at the Cisneros Group of Companies.*

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