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Featured Q&A With Our Board of Advisors

Q Productivity and productivity growth in Latin America as a region has been among the lowest in the world. Why is this? What actions can policymakers take to boost productivity in Latin America and make their economies more competitive?

A Guest Comment: Gabriel Gonzalez-Molina: "To a large extent, Latin America's low productivity is the result of grave mismanagement of the human aspects of performance, those that materialize at a very local level, the level of each workgroup, where the local manager is key. Take Mexico as an example: productivity per hour worked, or per worker, is lower than 40 percent of that of the US. But there is great variation at a local level. Some workgroups have productivity levels 2.5 times higher than those of the US average. The message is: it's microeconomics, stupid! Most policies look at productivity as a macroeconomic phenomenon. Our studies strongly suggest that policies should look at how to help organizations increase per person productivity at a very local level."

A Guest Comment: Tor Dahl: "The average Mexican is five times more productive in the US than in Mexico. To explain this difference requires an understanding of why the wealth of nations varies so much across boundaries in this world. Louis Pasteur once said, "first and foremost, it is the soil."

I interpret that to mean the characteristics of a population, its traditions and governance, and its opportunities. Research has shown that three simple concepts must be in place for productivity to flourish: people must feel free, safe, and justly treated. If you think about it, it is self-evident. Per capita income is directly correlated with freedom. An unsafe and unjust society discourages contributions from everyone. Then there is the science of productivity. We now know how to diagnose and treat what is in the way for a country, a company, or an individual to become more productive. Think of it as a set of diseases—each set unique to

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PHOTO OF THE DAY



Former European Union Trade Commissioner Pascal Lamy is expected to be elected director-general of the WTO following the withdrawal from the contest on Friday of Uruguay's Carlos Perez del Castillo. See related news brief, page 2.

Photo: WTO.

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NEWS BRIEFS

WTO to Elect Lamy Chief After Uruguayan Pulls Out of Race

The World Trade Organization's General Council is expected to elect Frenchman and former European Union Trade Commissioner Pascal Lamy to a four-year term as director-general of the WTO on May 26 following the withdrawal from the contest of Uruguayan diplomat Carlos Perez del Castillo on Friday. Brazil, which had put forward its own candidate for the post before supporting Perez del Castillo, praised Lamy as a "man of great experience."

Source: Reuters.

Venezuelan Judge Reverses Ruling on Foreign Exchange Limits

A Venezuelan judge on Friday reversed her decision earlier last week ordering traders on the **Caracas Stock Exchange** to halt arbitrage operations involving American Depositary Receipts. The ruling, which closed a legal loophole that traders were exploiting to bypass government currency controls, shocked and surprised stock Central Bank officials, who said the ruling would harm government efforts to refinance its debt. The judge did not explain her reversal.

Source: Reuters.

Ecuador Asks Colombia to Halt Coca Spraying Along Border

Ecuador's government on Sunday asked Colombia to suspend fumigation of coca crops along the countries' shared border until Ecuador completes an investigation of the effects of the anti-drug spraying on human health. Ecuadorean President Alfredo Palacio, who took office on April 20, has expressed concern about the effect on health of coca fumigation in the past.

Source: El Comercio (Peru).

Economic News**US Appeals Court Lifts Freeze of Argentine Debt Swap**

In a victory for the Argentine government, a US appeals court on Friday lifted a suspension of the South American country's bond swap, Reuters reported. The 2nd US Circuit Court of Appeals in New York said in a ruling that it ended the freeze on the exchange of \$7 billion in sovereign bonds—granted in March at the request of holdout creditors—"in order to avoid a substantial risk to the successful conclusion of the debt restructuring." Holders of the bonds had agreed to exchange them during the Argentine government's offer to swap \$81.8 billion in defaulted debt for new debt, concluded in February. Some 76 percent of creditors participated in the debt exchange, despite the biggest sover-

Dominican Republic (CAFTA-DR), promising "vigorous" enforcement of US trade laws. "Congress needs to pass this important legislation," Bush said in his weekly radio address. In his address, the president noted that Ohio congressman Rob Portman would be sworn in as the new US Trade Representative tomorrow. "[Portman] will make sure we vigorously enforce the trade laws on the books, while also working to continue opening foreign markets to American crops and products," Bush said. Amid strong opposition to CAFTA-DR on Capitol Hill, mostly from Democrats, the Bush administration launched a fresh public relations campaign for the trade pact last week. On Thursday, Bush was flanked by the leaders of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic as he urged passage of CAFTA-DR, which he said bring stability and security to a region wracked by civil wars and

Finance Secretary Guillermo Nielsen said Friday that the country could return to international bond markets "sooner than most people expect because there's an appetite for Argentine debt."

eign "haircut" in recent history, paving the way for Argentina's return to international debt markets for the first time since its default and economic collapse in 2002. "The restructuring is obviously of critical importance to the economic health of a nation," the appeals court said. An unnamed high-level source in Argentina's economy ministry cited by Reuters said the government would "immediately" move to issue the new bonds in the wake of Friday's ruling. Finance Secretary Guillermo Nielsen said earlier on Friday that the country could return to international bond markets "sooner than most people expect because there's an appetite for Argentine debt," Reuters reported.

Bush Promises "Vigorous" Enforcement of US Trade Laws

US President George W. Bush on Saturday repeated his call for Congress to approve a proposed free trade agreement with five Central American countries and the

plagued by poverty. Bush has not yet formally sent the pact to Congress for a vote.

Political News**Venezuela Requests US Extradite Cuban Exile for Terrorist Bombing**

The United States confirmed Friday that it received a request from the Venezuelan government to extradite anti-Castro Cuban exile and suspected terrorist Luis Posada Carriles, who stands accused of plotting the 1976 bombing of a Cuban airliner that killed 73 people. "We can confirm the receipt of a request, which we will process in accordance with the normal procedures applicable to such requests," State Department Richard Boucher said. US officials have said they do not know the whereabouts of Posada, who reportedly snuck into the US last month across the Mexican border and has applied for political asylum. The case of Posada, who in the

past worked with the US Central Intelligence Agency, represents a dilemma for the Bush administration, which has declared war on terrorism but also has strong ties to the politically powerful Cuban exile community in Florida [Editor's note: look for a related Q&A in tomorrow's issue of the *Latin America Advisor*.] An unnamed US official cited by Reuters said the Bush administration would handle the Posada case as a strictly legal matter. State Department Counselor Philip Zelikow told members of Congress that the 1976 bombing was an act of terrorism and that authorities were collecting evidence of Posada's alleged role in order to determine how to treat his asylum request, according to Reuters. Posada was arrested more than 20 years ago in Venezuela, but escaped prison without being convicted. Since then, he has admitted to being behind a spate of bombings in Havana in 1997 that killed an Italian tourist and wounded others. In November 2000, Posada was arrested in Panama and charged with plotting to bomb a University of Panama auditorium where Cuban President Fidel Castro was scheduled to speak. Analysts say hundreds of people could have been killed had the bombing been carried out. However, in August of last year outgoing President Mireya Moscoso, who has close ties to the Cuban exile community in the US, pardoned Posada and three Cuban Americans charged in the plot [Editor's note: see related Q&A in the September 1, 2004 issue of the *Latin America Advisor*.]

Mexico's Fox Denies Comment About Blacks in the US Was Racist

The office of Mexican President Vicente Fox denied Saturday that a remark Fox made the day before in which he said Mexican migrants do work in the United States "that not even blacks want to do" was racist. "President Vicente Fox expresses his enormous respect for minorities whatever their racial, ethnic, or religious origin, and that is why he regrets and states his disagreement with interpretations that accuse him of [making] racist statements yesterday," Fox's office said in a statement posted on the presidential Web site (www.presidencia.gob.mx). "The pur-

Special Advisor Report

While Worrisome, Setbacks a Sign US-Latin Relations are Maturing, Policy Experts Say

By *Latin America Advisor* Staff

MIAMI, FL—Anti-US sentiment in Latin America is worrisome, but the fact that the region is more forcefully asserting itself with the US may not be as bad for hemispheric affairs as some suggest, an Inter-American Dialogue forum hosted by *The Miami Herald* revealed last Thursday.

Political and business leaders participating in last week's forum called attention to several causes of increased friction between the US and its neighbors in recent years, including the sudden US focus on terrorism and war in Iraq; increasingly vocal resentment over growing US fiscal deficits after years of what some Latins viewed as paternalistic insistence on economic austerity; and increasingly complex trade negotiations that put hot-button sectors in play and the emergence of China, India and Europe as alternate trading partners to the US.

"At this point, I've seen more anti-US sentiment than ever before," said longtime Costa Rican politician and former ambassador to the US Sonia Picado. "Something very wrong is going on," Picado said.

Former Ecuadorean cabinet minister Yolanda Kakabadse said the relationship between the US and Latin America "has never been so poor."

While the animosity is worrisome, others pointed to greater assertiveness in Latin America with the the US, specifically noting the recent election of Chile's Jose Miguel Insulza to become secretary general of the Organization of American States—the first time in the OAS' 57-year history that a candidate initially opposed by the US was elected to the post.

Such assertiveness is a positive sign of a maturing relationship, they said.

"We're no longer concerned about being anti-American," said Brazilian businessman Roberto Teixeira da Costa. "We don't envy; we respect," he said, citing the fact that Brazil's economy is now an exporting powerhouse and industry in Brazil is holding its own in the global economy.

Former Canadian Foreign Minister Barbara McDougall reflected on the difficulty in sustaining the region-wide "rush of optimism" that 10 years ago was sparked by the first Summit of the Americas in Miami.

"Not to oversimplify, but I think [these ups and downs in relations] are part of a maturing process," McDougall said.

Former US envoy to Latin America Thomas F. "Mack" McLarty, who organized the 1994 Summit, said that "perhaps we are drifting apart a bit," but McLarty emphasized that it is "crucial" for the US to stay in engaged in Latin America "in a skillful, proper, supportive and sustained manner."

Featured Q&A*Continued from page 1*

each country, company, or individual. Diseases can only be cured if their root causes are known. In productivity science, the root cause of what 'is in the way' is always the same: a bad idea. To replace this with a good idea is like doing genomic surgery on a country—or a company. Our civilization is built on ideas. People have given their lives, liberty, and sacred honor for the ideas that

“... In the 1990s only Chile, Argentina, and Uruguay posted marked gains in productivity.”

– *Jerry Haar*

lifted them from tyranny to become free and independent nations. My Mexican friends in Minnesota are the hardest working people I know. They support both themselves and their families at home in Mexico. They know, instinctively and viscerally, what it takes to build wealth and prosperity. It is all in the soil, as Pasteur said. And in the ideas that form and flourish where you are free to think, free to move, and free to choose.”

A Guest Comment: Jerry Haar: “Worldwide, productivity is increasing in wealthy countries and declining in poor ones; for only nations with a labor force sufficiently educated to take advantage of technological advancements can achieve productivity improvement (in the 1990s only Chile, Argentina, and Uruguay posted marked gains in productivity). Besides deficiencies in Latin America's

pose of [the statements] was no other than to make clear the importance that Mexican workers have today in the development and progress of US society.” In a speech Friday criticizing new anti-immigration measures in the US, Fox said “there is no doubt that Mexicans, filled with dignity, willingness,

educational, vocational, and worker training systems, the region's public institutions and rules governing business regulation, taxation, and the judiciary, as well as inadequate infrastructure and the hidden costs of corruption also retard gains in productivity. Sweeping 'second generation reforms' focus on these shortcomings. R&D investment is a key determinant of competitiveness, yet the region's performance is pitiful—less than 0.4 percent of GDP in Argentina, 0.6 percent in Mexico, and 0.8 percent of GDP in Brazil, compared to over 2.5 percent in the US and South Korea. Since stronger intellectual property protection correlates with increased R&D spending, this must be addressed as well. While Latin America put all its eggs in the basket of macroeconomic adjustment in the 1990s, East Asian countries cut the education gaps in their labor force *vis-a-vis* developed nations by half and invested heavily in R&D. Latin America should do the same; for the costs of further procrastination are too high.”

Gabriel Gonzalez-Molina is President of the Latin America Division at The Gallup Organization and was recently appointed by the government of Puebla, Mexico as High Commissioner for Per Person Productivity.

Tor Dahl is President and CEO of Tor Dahl & Associates and Chairman Emeritus of the World Confederation of Productivity Science.

Jerry Haar is a Professor of International Business at Florida International University and a Visiting Fellow at Oxford University.

and ability to work are doing jobs that not even blacks want to do there in the United States.” In a small front-page headline, Mexican newspaper *Milenio* called the comment “racist,” while the newspaper *Reforma* labeled it “controversial,” according to the Associated Press.

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