

Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q Officials from 149 countries will begin meetings tomorrow at the World Trade Organization ministerial conference in Hong Kong without a hoped for framework agreement on trade liberalization. What do you think will come out of the Hong Kong ministerial? What progress do you see on agriculture, industry, and services at the WTO?

A Board Comment: Jon Huenemann: "The challenge is that it is not only important to just keep the ministerial from disaster, but it is important to make tangible progress. I think it is quite clear that given the stance of the EU and the others on agriculture we will be lucky to get something large on that score. What they may settle on is an agreement by March 2006 for an end date for export subsidies, but even that is questionable. It appears the most tangible signs at this time are that an agreement is likely on public health and trade-related intellectual property rights, and a special program for the least developed. The cotton issue with the Africans still sits out there unresolved, but hopefully that will not blow up and kill everything. On non-agriculture market access (NAMA) and services, in the absence of something in agriculture on market access we may squeak something out to advance those agendas, but it will not be much. This is a situation akin to metal rubbing on metal as the politics of the negotiations both internationally and domestically are so tough it

will be significant if the meeting can continue momentum into 2006 in a way that gives people hope. All the big players are struggling with the fundamental issue of what is their ambition, and they all define it somewhat differently. This is no surprise, but it sure points to how important this effort really is to the global economic and political environment, and, ultimately, all of our opportunities for prosperity."

A Guest Comment: Mario Marconini: "Hong Kong will be somewhere between success and failure. While since October negotiators have surprisingly had even numbers to play with in the agriculture negotiations, there shall not be agreement
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PHOTO OF THE DAY



Michelle Bachelet, the favored candidate in Chile's presidential election, waves after casting her vote on Sunday. See related story on page 2.

Photo: candidate's Web site.

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NEWS BRIEFS

Uruguayan Economy Grew 6.6 Percent in Jan-Sept

Uruguay's economy grew 6.6 percent in the first nine months of this year compared to the same period of 2004, the government said Friday. The economy expanded 1.6 percent in the third quarter from the second quarter. The government expects the economy to grow 6.5 percent this year after growing about 12 percent in 2004. It expects the economy to grow about 4.0 percent next year.

Source: Reuters.

Two Brazilian Men Found Guilty in Nun's Murder

Two Brazilian men were found guilty Friday of the February murder of US nun and environmental activist Dorothy Stang. Rayfran das Neves Sales was sentenced to 27 years in prison for shooting Stang, while Clodoaldo Carlos Batista, who was charged as an accomplice, received a 17-year sentence. Prosecutors said Sales and Batista were offered \$25,000 by ranchers to kill Stang. The case was seen as a test of the Brazilian government's commitment to cracking down on violence by loggers and ranchers in the Amazon against land activists.

Source: Associated Press.

Brazil's November Inflation Rises 0.55 Percent

Consumer prices in Brazil rose 0.55 percent in November, down from a 0.75 percent increase the previous month, the government said Friday. Inflation is expected to end this year at 5.67 percent, above the Central Bank's target of 5.1 percent. Most economists predict the Bank will cut its benchmark Selic interest for the fourth straight month on Wednesday from its current level of 18.5 percent.

Source: Reuters.

Political News

Bachelet Leads Closest Rival by 20 Points, Yet Runoff Expected

Center-left candidate Michelle Bachelet led the vote in Chile's presidential elections yesterday by more than 20 percentage points, but not by enough to avoid a run-off against conservative rival Sebastian Pinera in January. With 82 percent of the votes counted, Bachelet had 45.8 percent and opposition candidate Pinera, a wealthy businessman from the moderate wing of Chile's conservatives, was second with 25.7 percent, Reuters reported. Joaquin Lavín, another conservative candidate, had about 23 percent of the vote and ceded the election, and said he would back Pinera in the second round. Bachelet would have needed 50 percent

“Michelle Bachelet will have a congressional majority if she is elected.”

- Chilean President Ricardo Lagos

yesterday to avoid the January 15 round. If elected, Bachelet, 54, will become the country's first woman president and inherit the moderate-socialist legacy of President Ricardo Lagos, Latin America's most popular president, according to a recent Zogby poll. President Lagos said yesterday in a press statement that his Concertacion coalition was doing well at the polls. "Michelle Bachelet will have a congressional majority if she is elected," Lagos said. The next president takes office in March for a four year term.

Haitian Government Replaces Court Members in Wake of Electoral Ruling

Haiti's interim government on Friday "retired" five members of the country's Supreme Court and announced five replacements, a day after the Court ruled that a Haitian-born US millionaire could run for president in the country's upcoming elections. Michel Brunache, chief of staff for interim President Boniface Alexandre, told local radio that the decision to dismiss the judges was made months ago and had nothing to do with

Haiti's elections, which are scheduled for January 8. "Most of the judges were too old and unfortunately could not perform as they had before," Brunache was quoted as saying. The interim government, which took power after the ouster of former President Jean-Bertrand Aristide in February 2004, had criticized the Court's decision ordering election authorities to put Dumarsais Simeus on the ballot for the election. Election officials refused last month to put Simeus on the ballot because he had obtained US citizenship, while Haitian law bars foreign nationals from running. Simeus said he never renounced his Haitian citizenship. Brunache said the Court's ruling was "made in accordance with the law and procedure," but did not say whether Simeus would be allowed on the ballot. An opinion poll released on Friday showed former President Rene Preval leading the race with the support of

32 percent of likely voters, followed by Simeus with 21 percent, according to Reuters. There are 35 candidates in the presidential election. If no candidate wins more than 50 percent of the vote, a second-round run-off will be held February 15.

Poll: Latin Americans See Corruption Getting Worse

A majority of people in 13 out of 15 Latin American countries included in a survey published Friday by Transparency International think corruption has gotten worse in their country over the past three years. In the region, Colombia and Argentina were the only two nations where a majority of people believe corruption has either stayed the same or decreased, according to the poll of 55,000 people in 69 countries, conducted between May and October of this year by **Gallup International**. Sixty-five percent of Colombians believe corruption has stayed the same or fallen during the past three years, while 57 percent of Argentines think so. A majority of respondents in nine out

of the 15 Latin American countries believe corruption will increase over the next three years. Nicaraguans were the most pessimistic, with 70 percent of those surveyed saying corruption would get worse, followed by Venezuela (62 percent) and Ecuador (61 percent). Uruguayans were the most positive, with 57 percent predicting the levels of corruption will decline during the next three years, with Colombia (38 percent) and the Dominican Republic (34 percent) the second and third most optimistic countries. The other Latin American countries included in the poll were Bolivia, Chile, Costa Rica, Guatemala, Mexico, Panama, Paraguay, and Peru [Editor's note: the full report is available via www.transparencya.org].

Company News

PDVSA's US Affiliate CITGO Denies Texas Refineries for Sale

CITGO, the US affiliate of Venezuela's state-owned oil company PDVSA, issued a statement Friday denying that it was planning to sell two Texas refineries. CITGO said the statement was in response to media reports that it planned to sell its 156,000 barrel-per-day refinery in Corpus Christi, and its 41 percent interest in the 270,000 bpd Lyondell-CITGO refinery in Houston. CITGO President and CEO Felix Rodriguez had said earlier in the week that the company had no plans to sell the refineries or other US assets, according to the statement. "As a normal corporate practice, the performance of all assets is evaluated continually and strategic decisions are made accordingly," Rodriguez was quoted as saying. PDVSA President Rafael Ramirez, who is also Venezuela's energy and petroleum minister, also said last week that no CITGO assets were under review for a possible sale. CITGO and PDVSA have an effective refining capacity of more than 1.1 million barrels per day. Venezuelan President Hugo Chavez has said in the past that the CITGO refineries have been a bad arrangement for his country because the refineries buy Venezuelan oil at a discount and pay taxes in the US.

The Dialogue Continues

A continuation of the November 23, 2005 Q&A

Q In a draft report, a team of World Bank economists said last month that historically low growth rates and inequality are behind high poverty rates in Latin America. What is the best way for policymakers in the region to boost growth, lessen inequality, and reduce poverty? Is such an approach politically feasible?

A **Guest Comment: Guillermo Perry:** "There is no doubt that growth has to be at the center of any poverty reduction strategy. In fact, there are plenty of examples indicating that countries that have been successful at reducing poverty are countries that have managed to maintain high growth rates over prolonged periods of time. However, could it also be the case that poverty *per se* is a barrier to growth and therefore that poorer countries find it more difficult to grow just because they are poorer? The FY06 LCR Flagship Report explores the relationship between poverty reduction and growth and presents empirical evidence that supports the centrality of growth for poverty reduction. This basic message is refined to take into account an individual country's initial conditions, and it is argued that achieving the greatest reduction in poverty may require different development paths in different countries. For example, poorer and relatively equal countries should mainly focus on growth even if it is accompanied by deterioration in the distribution of income, what one could term the China model. Instead, richer and more unequal countries (e.g. Brazil, Argentina, Mexico, Colombia) should balance the growth and income distribution objectives because in these countries high inequality is reducing significantly the efficiency of growth in

reducing poverty, and even small reductions (increases) in inequality may have a dramatic positive (negative) impact on reducing poverty. This is even more relevant because there is some evidence that indicates that some pro-growth policies (such as trade opening) may also lead to increases in inequality and, thus, such policies need to be complemented with policies that have positive redistribution effects, such as conditional cash transfers for poor farmers that may be hurt by trade opening and more equal access to education and public infrastructure. Further, such complementary policies would enhance the direct growth effects of trade opening. Complementary policy 'packages' often deliver much more than the sum of their parts. However, the more novel thesis of the report is that persistent poverty itself appears to be a barrier to the achievement of higher growth rates. This view is supported with empirical evidence at the country, regional, and household level, which suggests that for an average country a 10 percentage point increase in poverty would lower the growth rate by about 1 percent. The finding of a bidirectional relationship between poverty reduction and growth opens the door to the existence of vicious (virtuous) poverty circles by which low (high) growth results in high (low) poverty and this in turn feeds back into low (high) growth."



Perry

Guillermo Perry is Chief Economist for Latin America & the Caribbean at the World Bank and a co-author of the report.

Featured Q&A*Continued from page 1*

just yet on what the final numbers will be in Hong Kong. However, having that expectation is itself too ambitious for this or any round. After all, we are not at the few last days of the affair, which is when things tend to coalesce. Both agriculture and industry are in a similar

“Until countries stop supporting second-rate (or less) educational systems, services will be a problem.”

- *Tony Smith*

position: they know fairly well what the main alternatives for liberalizing are, but they are trading those off against tariff bands and formula coefficients and flexibilities for sensitive products. In services, given the regulatory nature of the negotiations and the absence of numerical parameters, things tend to be less clear until a later stage—the stage when the greater definitions come out of agriculture and industry. Agriculture does lead the bandwagon. If the EU moves on agricultural tariff reductions, for example, from its 40ish percent reduction on average to closer to G20's 54 percent, coupled with a reduction of the number of sensitive items from EU's proposed 8 percent of the total, there could be an unraveling of a number of items in the negotiations."

A **Board Comment: Tony Smith:** "I don't expect a lot from the Hong Kong ministerial, but I believe there will be a consensus to move forward. In agriculture, the US will be a force for liberalization, but Europe and Japan will resist the effort. Politically, the US agricultural industry is

often protectionist at the grass-roots level, but the major producers are very competitive and need the international market. Therefore, the US can afford to support liberalization at the WTO ministerial. The same is not true of the Japanese and Europeans, particularly the French. Services are a problem. In the Americas, this goes right to the heart of the sovereignty issue and is a very difficult problem. The international companies want to be able to market internationally, and their power is immense. This is again a situation where the politics is very difficult, as in each country the service providers are often powerful but not competitive in an international marketplace. Until countries stop supporting second-rate (or less) educational systems, services will be a problem. In the financial and trade sectors, internationalization is the fact of the market, but it is being resisted ... Lastly, manufacturing is internationalized. A Dell computer, a Boeing aircraft, a car, and a Brooks Brothers suit, etc. are all hybrids with parts, design, and other inputs from all over the world. This creates internal political problems in countries like the US, but is a fact of life. Ambassador Portman understands this and understands the internal political forces, and therefore we can expect the dynamics to push for a continuation of the WTO process in some form."

Jon Huenemann *is a member of the Advisor board, Principal in the International Department at Miller & Chevalier, and a former Assistant USTR with responsibilities in the Americas.*

Mario Marconini *is a Senior Partner at MM Associados in Brazil and former Foreign Trade Secretary of Brazil.*

Tony Smith *is a member of the Advisor board and a Partner at Schmeltzer, Aptaker & Shepard.*

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Subscription Inquiries are welcomed at
freetrial@thedialogue.org

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