

INTER-AMERICAN DIALOGUE'S

LATIN AMERICA ADVISOR

BOARD OF ADVISORS

- | | |
|--|--|
| Diego Arria
Director,
Columbus Group | Peter Hakim
President,
Inter-American
Dialogue |
| Genaro Arriagada
Board Member, Banco
del Estado de Chile | Donna Hrinak
Director for Corporate
and Govt. Affairs,
Kraft Foods Inc. |
| Joyce Chang
Global Head of
Emerging Markets
Research, JPMorgan
Chase & Co. | Jon Huenemann
Principal,
International
Department,
Miller & Chevalier |
| W. Bowman Cutter
Partner,
E.M. Warburg
Pincus | James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC |
| Rui da Costa
Managing Director,
Latin America & the
Caribbean,
Hewlett-Packard Co. | John Maisto
Director,
US Education Finance
Group |
| Alejandro Delgado
Economist for Latin
America, Africa, the
Middle East & Mexico,
General Motors | Nicolás Mariscal
Chairman,
Grupo Marhnos |
| Dirk Donath
Managing Director,
Eton Park Capital
Management | Thomas F. McLarty III
President,
McLarty Associates |
| Jane Eddy
Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's | Carlos Paz-Soldan
Partner,
DTB Associates, LLP |
| Marlene Fernández
Former Bolivian
Congresswoman and
Ambassador | Beatrice Rangel
Managing Director,
AMLA Consulting LLC |
| Wallace Gardner
Vice President,
Worldwide Sales,
Chubb & Son | José Antonio Ríos
Chairman,
Global Crossing
Latin America |
| Javier Garza
Chairman and CEO,
Grupo Domos
Internacional | Andrés Rozental
President,
Rozental & Asociados |
| | Everett Santos
President,
DALEC LLC |
| | Roger Scher
Head of Latin American
Sovereign Ratings,
Fitch Ratings |

FEATURED Q&A

What Are the Prospects for the US-Colombia Free Trade Deal?

Q US congressional Democrats, led by Speaker of the House Nancy Pelosi, angered the White House last week when they blocked President George W. Bush's attempt to force a vote on a free trade agreement with Colombia. What are the prospects for the trade deal now? Is compromise still possible? What are the chances for a vote this year?

A Board Comment: Carlos Paz-Soldan: "The Democratic leadership in Congress has frequently indicated its unwillingness to vote on the US-Colombia free trade agreement (FTA) during this election year. The White House's decision to submit the FTA for congressional consideration on April 7 under Trade Promotion Authority (TPA) rules tested that resolve. In response, the House leadership moved three days later to approve a rule that postponed action on the FTA indefinitely. The House action, intended to play to the domestic political audience, has had the unintended consequence of taking US trade policy into uncharted waters. Concerns have now been raised abroad that the US may no longer be a reliable trade partner. Perhaps attempting to mute international reaction, House Speaker Pelosi now says that the FTA vote has simply been 'delayed' and that she is prepared to join in a 'good faith effort' to find a way to approve the FTA. If this is true, then what is the new timeframe for consideration of the FTA? How will that

timeframe affect other pending FTAs? Which other pieces of legislation must be enacted before a vote on the agreement? Ms. Pelosi has not said. Although an FTA vote might be tied to renewal of Trade Adjustment Assistance or to another stimulus package, election year rhetoric as well as the House postponement have awakened the anti-trade sentiments of several key Democratic constituencies. It is therefore unlikely that the FTA will be considered until after the current US electoral cycle is over."

Continued on page 4



Experts: Region Vulnerable to Global Economic Woes

(L-R) Brian O'Neill, Enrique Garcia, and Nora Lustig said at the Dialogue Tuesday that Latin America is in a good position to weather global economic turmoil, but remains vulnerable on many fronts. See *Special Advisor Report* on page 3.

Photo: Elisabeth Burgess.

Inside This Issue

FEATURED Q&A: What Are the Prospects for the US-Colombia Free Trade Deal?	1
Morales Dismisses Autonomy Drive as Project by Wealthy Minority	2
Close Political Ally of Colombian President Uribe Arrested	2
Argentine Markets Decline on Concerns of Renewed Farmers Strike.....	2
AIG Investments Raises \$692 Million for Latin Equity Fund	3
Special Advisor Report: Region Vulnerable to Global Economic Distress on Many Fronts...	3

NEWS BRIEFS

Colombian Peso Rises to Highest Level in Nearly Nine Years

The Colombian peso on Tuesday rose to its strongest level since July 1999 as rising oil prices keep boosting export revenue, Bloomberg News. The peso advanced 0.4 percent to 1,773.05 per dollar on Tuesday afternoon after rising to as much as 1,772.7 pesos per dollar. The peso has strengthened 19.5 percent in the last year, second only to Brazil's real among the six most traded currencies in Latin America. Crude oil is Colombia's main export.

Codelco Says Strike Costing it More Than \$10 Million Per Day

Chilean state-owned copper miner **Codelco** said Tuesday it was losing more than \$10 million a day as the result of a week-old strike by subcontractors demanding improved benefits and pay. The strike has shut down operations at at least three mines owned by Codelco, the world's biggest copper producer, helping to send prices for the metal up on world markets.

Raul Castro Makes First Cabinet Change of His Government

Cuban President Raul Castro replaced his education minister, the first change in the Communist country's cabinet since Castro took office two months ago, the Associated Press reported on Tuesday, citing state-run newspaper *Granma*. Castro appointed Ana Elsa Velazquez, rector of the government's Frank Pais Garcia Institute of Advanced Teaching Studies in the eastern city of Santiago, to replace Luis Ignacio Gomez Gutierrez. Castro has suggested that a major Cabinet shake up is expected later this year to streamline the government.

Political News

Morales Dismisses Autonomy Drive as Project by Wealthy Minority

Bolivian President Evo Morales on Tuesday said a push for regional autonomy in the country is an attempt by a rich minority to keep their long-held privileges, Reuters reported.



Morales

ABI file photo.

He said the autonomy push was aimed at weakening his policies for helping Bolivia's poor, indigenous majority. Leaders from four of Bolivia's nine provinces are seeking greater political autonomy and control of the country's

legues, Reuters reported. "Now that they have lost power, they want autonomy ... The central issue is the fight for money," Morales was quoted as saying.

He said the autonomy push was aimed at weakening his policies for helping Bolivia's poor, indigenous majority. Leaders from four of Bolivia's nine provinces are seeking greater political autonomy and control of the country's

reported. Colombia's chief prosecutor's office, which earlier in the day ordered former Senator Mario Uribe's arrest on charges of criminal conspiracy for "agreements to promote illegal armed groups," said he was taken by police from Costa Rica's embassy in Bogota after Costa Rica denied his asylum request. Mario Uribe resigned from the Senate in October when he came under formal investigation amid a wider probe into links between lawmakers and Colombia's right-wing paramilitary groups. More than 60 lawmakers, most from President Uribe's coalition, have been implicated in the probe. In a statement, President Uribe said the arrest of his second cousin was painful for him. "I assume this pain with patriotism and without diminishing the fulfillment of my duties, with the sole aim of protecting institutions, protection that also depends on the heads of other branches of power," he stated. The president has long been close to Mario Uribe, with whom he

“Now that they have lost power, they want autonomy ...
The central issue is the fight for money.”

— *Evo Morales*

large gas reserves. The country's wealthiest province, Santa Cruz, is planning a referendum on autonomy on May 4. Morales said the referendum is illegal and will change nothing. "For us it is a survey, an opinion poll, so it's non-binding," he said. Morales said the United States "is leading the conspiracy against my government," and planned "to weaken, to topple Evo." However, the Bolivian president ruled out using the armed forces to keep the country united, according to Reuters. "There will be no state of emergency, there will be no militarization," he said. "I believe in the people's conscience."

Close Political Ally of Colombian President Uribe Arrested

A second cousin and close political ally of President Alvaro Uribe wanted for supporting illegal armed groups, surrendered to police Tuesday after Costa Rica denied him political asylum, the Associated Press

founded a political party in 1985. The arrest of his cousin is just the latest headache for President Uribe. On Monday, Colombia's attorney general opened an investigation into an accusation by a former lawmaker that his administration promised political favors in exchange for supporting a change in law that allowed the president to run for reelection in 2006.

Economic News

Argentine Markets Decline on Concerns of Renewed Farmers Strike

Argentine markets tumbled Tuesday on worries farmers will restart a strike over export taxes imposed by President Cristina Fernandez. The country's bonds, currency, and stocks all fell amid reports that the government and farmers had made little progress in talks to settle the

dispute over the taxes on grain exports ahead of a May 2 deadline set by the farmers. Last month, the farmers staged a three-week strike to protest the taxes, blocking highways and preventing deliveries of beef, poultry, dairy, and other basic food items to urban centers. With food shortages growing, the strike posed the most difficult challenge to Fernandez since she took office in December. The farmers suspended the strike for 30 days on April 2 in order to negotiate with the Fernandez government, but one farm leader participating in the talks said Tuesday they "are pretty difficult." Pablo Orsolini, vice president of the Argentine Agrarian Federation (FAA)—one of four agricultural associations that led last month's strike—added that "we're going to exhaust all avenues, but people are very annoyed and they're already thinking about taking some kind of measure from May 2." Fernandez on Tuesday also complained about a lack of progress in the talks, and appealed for "common sense, responsibility, [and] negotiation." Fernandez, who accused the farmers of "extortion," during the strike, argues the farmers have benefited from high commodity prices and the taxes are a fair way to distribute the wealth to the country's poor while helping control inflation.

Company News

AIG Investments Raises \$692 Million for Latin Equity Fund

AIG Investments, the asset management arm of insurance giant **AIG**, said Tuesday it raised \$691.9 million for a private equity fund targeting companies in Latin America. In a press release, AIG Investments said the sum exceeded the target close for the "Brazil Special Situations Fund II," or BSSF II, a second-generation fund focused on investment opportunities in Brazil, as well as in Mexico, Colombia, and other Central and South American countries. The fund targets companies deemed to capitalize on opportunities in the region in such areas as agriculture, natural resources, consumer products and services, retail, financial services, and manufacturing.

Special Advisor Report

Region Vulnerable to Global Economic Distress on Many Fronts

By Elisabeth Burgess

WASHINGTON, DC—Latin America is in a good position to weather global economic turmoil sparked by the downturn in the United States, but the region—and especially its poor inhabitants—remain vulnerable, experts said Tuesday.

"[Latin America's] direct exposure to global market turmoil appears to be quite limited," Brian O'Neill, the US Treasury's deputy assistant secretary for the Western Hemisphere, told an audience at the Inter-American Dialogue.

But this doesn't mean the region is "immune" to the global downturn, which has primarily affected growth prospects in the G7 group of wealthy nations, he explained. In Latin America, the subregions of Central America and the Caribbean are the most vulnerable because they are small net energy and food importers, and depend on US tourism and remittances, according to O'Neill. Mexico is also vulnerable because its exports to the US account for about 25 percent of its GDP, he explained.

Latin America's poor will be hit the hardest, especially as migrant remittances from the US are not growing as fast as they once were, according to Nora Lustig, a professor at George Washington University and former head of the Inter-American Development Bank's poverty and inequality unit. Even though the region's macroeconomic outlook is not bleak, the US slowdown will cause "moderate poverty" rates to increase by 1 percent overall and by 17 percent among remittance recipients, Lustig said.

Enrique Garcia, president of the Andean Development Corporation, believes that "Latin America today is much better prepared to face any crisis than it was ten years ago." Still, the region's economies have suffered on several fronts. He listed lower growth prospects, less access to global financial markets, high prices, and a deceleration in remittances.

Additionally, the region could be at risk as the US downturn affects China's growth, thereby reducing the Asian giant's demand for Latin America's exports, Garcia said. Latin America has enjoyed a commodities bonanza in recent years, but if China's economy grows just 7 percent this year compared to 10 percent last year, Latin America will feel an impact.

"High concentration on few exports has become a rule, and that makes the region very vulnerable if terms of trade change," Garcia explained.

Meanwhile, rising prices for food staples are "a major crisis" for Latin America's poor, according to Lustig. Around the world, an estimated 105 million people will have become poor because of food price spikes since 2005, she said.

The US downturn and high food prices are two serious adverse shocks for the region's citizens, and dealing with them both will not be easy for policymakers, Lustig and Garcia agreed. To protect the poor, governments could boost social safety net programs, but such countercyclical policy is unlikely to happen because most fiscal resources are already committed, Lustig said.

On the macroeconomic front, "the dilemmas that Latin America faces are similar to those the US is facing," Garcia said.

"On the one side, you have to lower interest rates to solve the financial crisis, but at the same time that can be contrary to anti-inflationary policies and the strength of the dollar," he said.

Featured Q&A*Continued from page 1*

A Guest Comment: John Magnus: "The Colombia deal could still get a vote. Normal political rules will apply. The president will have to learn of, and then decide whether to meet, the price demanded by a congressional leadership that does not regard implementing this agreement as desirable in its own right. Congressional leaders will be in the uncomfortable position of appearing to hold a trade deal—entailing few changes in applied US trade policies—hostage in pursuit of (mostly) non-trade-related priorities that are not popular enough to be enacted over the president's objections. The administration will be in the uncomfortable position of putting a price tag on the national security benefits it has said are dependent on implementing the Colombia agreement. No one will enjoy these discussions. No less important is the impact of the House action, which dramatically exposed the fragility of TPA, on other trade initiatives. It is commonly accepted that presidents may have to 'pay' to win up or down votes under TPA. But the idea of having to pay to obtain such votes undermines TPA fundamentally. The architects of TPA reckoned that unless Congress surrenders control over both the timing and the final wording of implementing bills, executive branch negotiators will lack the credibility needed to get trading partners to negotiate seriously. Did last week's blow-up effectively hand a 'get-off-the-hook-free' card to WTO members reluctant about moving the Doha Round negotiation to a new plateau during 2008? Could it adversely affect discussions with Korea during the run-up to a (supposedly) TPA-advantaged congressional vote on the US-Korea FTA? There could be negative fallout even if the president finds enough in his wallet to buy a Colombia vote."

A Guest Comment: Stephanie Burgos: "The prospects of Congress passing the US-Colombia FTA this year are

minimal, but the chances of a deal that benefits development in Colombia are nil. Trade can only be an engine for poverty reduction if trade rules benefit vulnerable populations, but the Colombia FTA fails this test. By forcing Colombia to fully open its market to subsidized US agricultural exports, the deal threatens the livelihoods of small farmers who produce food for the domestic market. Unable to compete, they will have few options but to grow illicit crops. As the world faces a global food crisis, a deal that locks in policies which undermine domestic food production is a mistake. Poverty and inequality in rural areas have fueled Colombia's armed conflict for more than four decades and led to an expansion of illicit coca cultivation. The Colombia trade deal now in Congress will simply exacerbate these conditions, while the promise that it will increase foreign investment is an illusion that may not bear out in practice. Congressional Democrats are right to place no urgency on bringing this agreement to a vote, as it will not benefit development or poverty reduction in Colombia. Instead, Congress should simply extend the Andean trade preference program this year and let a new administration take up the matter of how to best strengthen US trade relations with Colombia."

Carlos Paz-Soldan is a member of the Advisor board and a Partner at DTB Associates, LLP.

John Magnus is Of Counsel in the International Trade Group at Miller & Chevalier and former Chair of the American Bar Association's International Trade Committee.

Stephanie Burgos is a Senior Policy Advisor at Oxfam America.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2008

Erik Brand,
General Manager, Publishing
ebrand@thedialogue.org

Robert Simpson,
Editor
rsimpson@thedialogue.org

Elisabeth Burgess,
Reporter
eburgess@thedialogue.org

Danielle Jetton,
Computer Services Coordinator

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director, Special Projects

Dan Erikson,
Senior Associate, US Policy

Claudio Loser,
Senior Fellow

Manuel Orozco,
Executive Director, Remittances and Rural Development Project

Tamara Ortega Goodspeed,
Senior Associate, Education

Marifeli Pérez-Stable,
Vice President, Democratic Governance

Jeffrey M. Puryear,
Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at fretrial@thedialogue.org

Latin America Advisor is published every business day by the Inter-American Dialogue 1211 Connecticut Avenue, Suite 510 Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.