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FEATURED Q&A

Will Colombia Have one of the World's 30 Largest Economies?

Q In a report recently released by HSBC, analysts predicted that Colombia may become one of the world's 30 largest economies by the year 2050, with only Egypt and Malaysia increasing in size at a faster rate. The Andean nation would need to maintain an average growth rate of 4 percent to match the report's predicted position of 26. Is Colombia's economy on track to become a top 30 economy by 2050? What steps would the government and private sector need to take to realize the report's forecast?

explore regions that were surrounded by illegal armed groups before. In turn, this sector's performance will contribute to higher royalties for the government which, if efficiently distributed, should permit the country to reach growth rates of even higher than 4 percent in the next decades. Congress is in the process of approving several structural reforms. Although solutions to issues such as a lack of infrastructure are needed as soon as possible, government policies are going the right way to permit the Colombian economy to become

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A Daniel E. Velandia O., head of research at Correval in Bogotá: "This is the first time in several years that a new government can focus on issues other than violence and security. Hence, thanks to the advances carried out on this front during Álvaro Uribe's administration, the current government has been able to direct all of its efforts to face other structural problems like a very high unemployment rate, a long-term fiscal deficit, inefficiencies in the healthcare sector and lack of infrastructure. Currently, local analysts and the government itself are expecting an average GDP growth rate of close to 5 percent for this decade. One of the most important assumptions on which this forecast rests is the high probability of an oil mining boom in the next eight to 10 years. While Colombia has always had a high potential for oil production, it wasn't until today that it has been possible to



Haitian President to Remain in Office Until Mid-May

The chief of staff to Haitian President René Préval confirmed Monday that Préval will remain in office for more than three additional months as Haiti chooses his successor in a delayed runoff election. See story on page 2.

File Photo: U.S. Government.

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NEWS BRIEFS

Mexico's Ruling Party Wins Governorship of Baja California

The conservative party of Mexican President Felipe Calderón won the governorship of Baja California state, according to election results released on Monday, Reuters reported. Marcos Covarrubias of Calderón's National Action Party (PAN) won 40 percent of the ballots cast while Ricardo Barroso of the Institutional revolutionary Party (PRI) came in second with 33 percent and Luis Arnaldo Diaz of the Democratic Revolution Party (PRD) placed third with 21 percent. The PRD has governed the sparsely populated state for most of the past decade.

Venezuelan Workers, Coca-Cola Femsa Near Deal: Union Leader

A strike that began Jan. 14 at the Coca-Cola Femsa bottling plant located in Venezuela's Carabobo state will likely come to an end, the secretary-general of the trade union on strike, Miguel de Pablos, told EFE, *El Universal* reported. De Pablos said the company had raised its offer and the parties were reaching an agreement for wage increases and other benefits. The strike has led to a shortage of soft drinks in the country.

Chile's Besalco to Invest in Peruvian Real Estate

Chilean construction firm **Besalco** will invest as much as \$400 million in the Peruvian real estate sector over the next eight years, making Peru the only international operation for the company during that period. "Competition has grown in the Peruvian market due to the increased presence of local and foreign companies," general manager Paulo Bezanilla told *El Mercurio*, Agencia Andina reported.

Political News**Haiti's Préval Will Remain in Office Until Mid-May**

Haitian President René Préval will remain in office until May 14 as the country selects his successor, Préval's chief of staff told the Associated Press Monday. Préval's term was originally set to end Monday, but Haitians are scheduled to vote in the second round of the country's election March 20 in a vote that was delayed because of a problematic first round. "He will not leave today," chief of staff Fritz Longchamp told the AP. In recent days, Préval has been silent about his intentions, leading to speculation that he might appoint someone to be president temporarily. Last year, lawmakers approved a measure to allow Préval to remain in office three months past the expiration of his term because his swearing-in was delayed in 2006. The United States and other countries have indicated they would support Préval remaining in office for an

additional three months. "The United States believes that a peaceful and orderly transition between President Préval and his elected successor is important for Haiti. The president and the people of Haiti will have to decide on the framework

“He will not leave today.”

— *Préval's chief of staff, Fritz Longchamp*

for this transition," Jon Piechowski, a spokesman at the U.S. Embassy in Port-au-Prince, told the AP. Last week, Haiti's electoral commission removed ruling party candidate Jude Célestin from the runoff ballot after an Organization of American States report concluded the first round was marred by fraud in his favor. The runoff now pits former first lady Mirlande Manigat against singer Michel Martelly.

Featured Q&A

Continued from page 1

one of the 30 largest in the world. On the other hand, the most important step that the private sector must take to reach this goal is to solve the deep lag of productivity and competitiveness that remains in some sectors like industrial manufacturing."

A Luis Oganés, managing director and head of Latin America Research at J.P. Morgan Chase & Co. in New York:

"Colombia's growth dynamics have improved dramatically over the past decade. Efforts from the Pastrana and Uribe administrations to advance structural reforms on pensions, taxes, territorial transfers, royalties and trade agreements—along with the marked improvement in the security situation—have done wonders to promote investment. Indeed, after having reached 25 percent of GDP in the mid-1990s, total investment collapsed to 13 percent of GDP by

the end of that decade amid the first recession that Colombia had seen in five decades. Since then, investment has been recovering steadily, allowing the Colombian economy to avoid outright recession in 2008-2009. Total investment bounced back to 25 percent of GDP by the third quarter of last year, which should enable the Colombian economy to sustain a growth pace of around 4.5 percent in coming years and to eventually become one of the largest emerging market economies after the BRICs. That said, the government still must tackle several structural issues in order to boost growth prospects and further reduce the crowding out of the private sector. The main ones still lie on the fiscal front, where the central government's deficit remains stubbornly high and healthcare costs threaten to become a growing contingent liability. Fortunately, the Santos administration has made an appropriate diagnosis of the pending reform agenda and is already pushing it through the legislature. Credit rating agencies may soon

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Economic News

U.S. Treasury Secretary Seeks to Strengthen Ties With Brazil

U.S. Treasury Secretary Timothy Geithner was in Brazil Monday meeting with leaders there to bolster ties before next month's visit by President Barack Obama, the Associated Press reported. In a speech at the Getúlio Vargas Foundation Monday, Geithner spoke of the bilateral relationship as reciprocal. "Our economic ties are expanding. Two-way trade between our countries has almost doubled since the turn of the century. Investment and capital flow in both directions. Today



Geithner

File Photo: U.S. Government.

Brazilian entrepreneurs are investing in the United States, opening up plants and creating jobs, just as American companies are doing in Brazil," according to a copy of the speech posted on the

Treasury Department's Web site. Taking questions from economics students in São Paulo, Geithner said Brazilian and U.S. "interests are fundamentally aligned" and the countries have "very similar interests in what we want to build globally." Relations between the United States and Brazil have been strained in recent years, however, over issues ranging from trade disputes on cotton and orange juice to political disagreements over Iran's nuclear program. While former Brazilian President Luiz Inácio Lula da Silva actively sought out south-south partnerships in order to balance out what he saw as wealthy-nation dominance in the international economic system, the rising prominence of China and India have yielded other problems for Brazil. As China last year surpassed the U.S. as Brazil's biggest trading partner, the country's officials have increasingly become worried that China is flooding its domestic market with cheap imports, hurting the competitiveness of local manufacturers, and has manipulated its currency to Brazil's disadvantage.

In Focus

Insulza Not Forceful Enough in Promoting Democracy: U.S. Envoy

By Gene Kuleta

WASHINGTON—The chief of the Organization of American States, José Miguel Insulza, is not firm enough in promoting democracy in the hemisphere, though he is constrained by the organization's structure, the permanent U.S. representative to the OAS, Carmen Lomellin, told the *Latin America Advisor* in an exclusive interview.

"We would like it if the secretary general were a lot more forceful in his defense of democracy. He is not," Lomellin said Feb. 1 in a meeting with the *Advisor* that also included all seven U.S. ambassadors posted in Central America. The envoys were in Washington for the State Department's Global Chiefs of Mission Conference, which brought nearly every U.S. ambassador from around the world to the State Department for a series of meetings with officials including Secretary of State Hillary Clinton.

In a later interview, Lomellin added that Insulza should place more emphasis on speaking out about issues such as "respect for freedom of expression, for civil society."

"We wish he would speak out more about democracy," Lomellin said. However, the secretary general "works for 34 different countries," she added. "If we're telling him one thing and another state is telling him another thing, how do you satisfy so many masters? It's not a failing of the secretary general as much as it is of the system."

The OAS is "absolutely" a relevant institution, but it "still has a lot of work to do," Lomellin said during the Feb. 1 meeting. "Politically it needs to be strengthened and institutionally it needs to be strengthened." In order to be more effective in promoting democracy, the OAS should work more with civil society groups in Western Hemisphere countries and focus on building democratic institutions, she said.

Through a spokeswoman, Insulza declined to respond to Lomellin's statements.

Ambassadors to Central American countries also expressed frustration with some statements made by leaders in the isthmus who say the United States does not provide enough assistance to their countries for initiatives such as fighting drug traffickers.

"The Nicaraguan government, especially through its president, regularly complains about the level of resources, and they regularly underestimate what the real resources are," said Washington's ambassador to Managua, Robert Callahan.

Complaints have arisen from Central American countries that while the United States provides funds to Central America for fighting crime through the Mérida Initiative, little of that money goes to the isthmus. Of the \$1.6 billion allocated so far under the plan, 84 percent went to Mexico, *The Economist* reported Jan. 20. However, the ambassadors pointed out that the United States has several local aid programs in Central America and last year established the \$165 million Central America Regional Security Initiative, known as CARSI, to support law enforcement.

"None of us would suggest that money alone is going to solve this problem, and certainly not the monies of the U.S. or the other donor countries," said the U.S. ambassador to Costa Rica, Anne Slaughter Andrew. "We have through renaming and refocusing our efforts as a Central American regional strategy brought the regional focus. It's not the money alone. It's the strategic investments." [Editor's note: A longer version of this article is available by clicking [here](#).]



Lomellin

File Photo: U.S. State Department.

Featured Q&A*Continued from page 2*

reward such efforts by restoring Colombia's investment grade status, which was lost in the late-1990s. This should help Colombian companies tap credit markets at a lower cost, which would further enhance the virtuous circle of higher investment and GDP growth."

A **Andrés Escobar, president and partner of EConcept AEI in Bogotá:** "Colombia experienced an average GDP growth of 3.9 percent over the last four decades. During this period, it faced severe bottlenecks at different points in time related to violence, trade and capital flow restrictions, corruption, poor infrastructure, low coverage in education and fiscal imbalances. In short, productivity growth has been limited by a number of factors. During the last two decades, substantial reforms have been made to limit these growth inhibitors. Although many problems still plague the Colombian economy, one can safely say that the recipe for higher productivity growth is coming together at last. In order to keep momentum going during the next four decades, the government has to focus on infrastructure, (bilingual) education, fiscal sustainability and a policy mix that successfully handles the negative consequences of commodity booms. Securing property rights must also be a priority, especially in rural areas. Improvements on these fronts will facilitate taking advantage of a large domestic market and turn Colombia into an export hub. The domestic capital market has huge growth potential, as lower fiscal deficits will force private pension funds to invest in new instruments. Under these circumstances, corporations must leave behind the security-related fears of listing companies in the stock exchange. Also, research and development has to climb rapidly in the priorities of the corporate world. The private sector has to start looking at Asia as an export destination. Colombia is quite vulnerable to climate change. Both the public and the private sector must internalize the need to be environmentally friendly."

A **Erich Arispe, director in the sovereign group of Fitch Ratings:** "While the global financial crisis and breakup of trade relations with Venezuela detracted from growth in 2009 and 2010, these factors have not structurally weakened the Colombian economy. Fitch considers that Colombia's coherent macroeconomic policy framework, improved security environment, strong institutions and healthy financial system will likely allow the country to regain growth momentum in 2011 and 2012 averaging 4.5 percent. Upside risks on this growth outlook are present due to the positive developments in the commodity sector. According to official estimates, oil production could increase by 50 percent over five years from approximately 800,000 barrels per day in 2010 to 1.25 million in 2015, based on actual recoverable reserve levels. Coal production could increase from 92 million tons per year to 128 million during the same period. Aware of the increasing importance of commodities, the Santos government has put forward legislation to maintain macroeconomic stability and strengthen the country's fiscal framework. Fitch believes that establishing a clear, rules-based and transparent mechanism to save the potential commodity windfall would prevent distortionary effects on the economy, especially on the inflation and exchange rate fronts. Moreover, such a mechanism, in combination with fiscal reforms designed to provide a credible path toward fiscal consolidation, could enhance the government's capacity to implement counter-cyclical fiscal policies, thus making long-term growth performance more stable. Finally, faster and more efficient infrastructure development, increased labor market flexibility, greater diversification and institutionalization of trade links would be positive for general growth prospects and improve the non-commodity sectors' competitiveness."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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