

# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q** World Trade Organization Director General Supachai Panitchpakdi said last week the Doha Round of global trade talks is facing a "crisis of immobility." What are your predictions for the negotiations? Will the December WTO ministerial in Hong Kong bear fruit? Will trade negotiators meet a year-end 2006 deadline?

**A** Guest Comment: Javier Tizado: "The recent failure of the meeting held at Dalian, China, in which 32 countries met in order to negotiate texts for the upcoming summit of Hong Kong, provides a discouraging perspective. The lack of concessions and prevailing protectionist positions on agricultural issues deepen the confrontation between rich and poor countries, making it impossible for the latter to have normal access with their primary products to the developed countries' markets, and hence increase production, create jobs, and improve the lives of millions who live beneath the poverty line. It remains a paradox that while poverty was a main issue at the recent G-8 meeting, the European Union continues to artificially maintain the agricultural production through enormous subsidies (\$279 billion in 2004), damaging price levels and harming agricultural production growth in poor countries. In order to restart the Doha Round (motionless for the past four years), it is imperative that a formula be found to unfetter the commerce of agricultural products."

**A** Guest Comment: Mario Marconini: "At the mini-ministerial meeting at Dalian, China, no country praised the results at the end. And yet, there was a major breakthrough in agriculture—the nervous center of Doha par excellence. There is plenty for Hong Kong and 2006 to go on: a Quad-G-20 agreement on bands and linear tariff reductions in agriculture; a move toward a non-linear tariff-reducing formula (in and of itself a positive sign as compared to previous rounds) for industrial products based on different coefficients for different

*Continued on page 4*

### PHOTO OF THE DAY



US President George W. Bush met with the president of El Salvador, Antonio Saca, at the White House on Friday to discuss CAFTA and to thank Saca for El Salvador's contribution of troops to the Iraq conflict.

*Photo: White House.*

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## NEWS BRIEFS

**Hurricane Emily Hits Mexico's Yucatan Coast**

Hurricane Emily struck Mexico's Yucatan peninsula early Monday, knocking out power and phone service in coastal areas while some 60,000 tourists rode out the Category 4 storm in temporary shelters. Emily made landfall near Tulum, 100 miles south of Cancun, with 135 mph winds, the National Hurricane Center in Miami said.

Source: Associated Press.

**Chilean Copper Exports Surged 55 Percent in June**

The value of Chilean copper exports rose to \$1.528 billion in June, up 55 percent from the same month of 2004. Chile, the world's largest copper producer, is expected to account for more than half of global copper output over the next five years amid strong demand from China.

Source: Reuters.

**Brazil to Buy 12 Used Mirage Fighter Jets from France**

The Brazilian and French governments announced Friday that Brazil had agreed to buy 12 used Dassault Mirage jet fighters from France. Brazil, which is seeking to replace its ageing fleet of fighter jets, will pay 60 million euros (\$US 72.6 million) for the 12 planes.

Source: Reuters.

**NOVA Chemicals Announces Joint Venture with Mexican Firm**

Pittsburgh, PA-based NOVA Chemicals Corp. announced Friday that it had agreed to form a 50-50 joint venture with Mexico's Grupo Idesa to produce and distribute polystyrene in Mexico. The venture, to be called Novidesa, is expected to launch operations in September.

Source: company press release.

## Political News

**Gallup Poll: Colombian President Uribe Enjoys Continued Popularity**

Support for popular Colombian President Alvaro Uribe has held steady, while that for his political opponents has declined, local daily *El Tiempo* reported, citing a Gallup poll published on Friday. Support for Uribe, whose "democratic security" program and hardline campaign against leftist rebels have won praise both at home and abroad, held at 69 percent in July from April, the Gallup poll found. Meanwhile, the approval ratings for Uribe's main political opponents—Horacio Serpa and former President Cesar Gaviria, both of the Liberal Party—declined in July. Support for Serpa and Gaviria fell 10 points and 11 points, respectively, to 40

published this morning, **Credit Suisse First Boston** noted the Gallup poll's findings that ratings for Uribe's handling of the economy and domestic security have improved. "Uribe's extraordinarily high ratings suggest that, if the Constitutional Court rules in favor of the re-election, Uribe will probably win in the elections," CSFB said. The poll also revealed that 73 percent of those surveyed backed government peace talks with illegal paramilitary groups, although 62 percent said that the punishments to be meted out to demobilizing paramilitaries under an amnesty law passed by Congress last month were insufficient. Uribe has yet to sign the Justice and Peace law, which would limit prison sentences for paramilitary fighters accused of killings and other crimes to a maximum of eight years. Critics of the law also say it would allow paramilitary commanders to avoid extradition on drug trafficking

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percent and 35 percent following attacks by both against Uribe. Serpa, who lost to Uribe in Colombia's 2002 presidential election, on Sunday announced his intention to seek the Liberal Party's presidential nomination for the May 2006 race. Gaviria, who last month was elected chairman of the Liberal Party, is also considered a possible candidate in the 2006 presidential race, although he has said he has no plans to run. The approval ratings for two other possible Liberal Party presidential candidates, Rafael Pardo and Rodrigo Rivera, also fell in July, as did that of political independent Enrique Penalosa, the poll found. Uribe hopes to run for re-election, pending a favorable ruling by Colombia's Constitutional Court, which is reviewing a measure passed by Congress that would allow him to seek a second consecutive term. The Court is expected to rule by mid-November. In a research note

charges, retain the profits from criminal activities, and keep part of their forces intact.

**President Bush Lobbies for US Trade Deal with Central America, DR**

US President George W. Bush on Friday lobbied for a proposed free trade agreement with five Central American countries and the Dominican Republic (CAFTA-DR), saying it would create jobs in the US, lower tariffs on US exports to the region, and promote political stability. "I'm calling on the Congress to pass [CAFTA-DR]. It's a pro-jobs bill. It's a pro-growth bill. It's a pro-democracy bill," Bush said in a speech to workers at a textile mill in North Carolina, according to a transcript of the speech posted on the White House Web site ([www.whitehouse.gov](http://www.whitehouse.gov)). "We cannot turn our backs on our friends. We cannot

say to them, for pure political reasons, we're not going to support a treaty that will not only help our own businesses, but that will help stabilize young democracies." The Senate approved CAFTA-DR in a 54-45 vote last month. However, the trade deal faces a tougher fight in the House amid stiff Democratic opposition and some Republican lawmakers from sugar- and textile-producing states. Despite the strong opposition to the agreement, last week Republican leaders predicted the House would approve it by the end of this month. Rep. Bob Inglis (R-SC) said Friday that a small group of lawmakers from textile-producing states could reach a deal with the Bush administration this week that would secure their vote in favor of CAFTA-DR, according to Reuters.

### Haitian Council Recommends Election Ban for Pro-Aristide Party

A US-backed advisory council that oversees Haiti's interim government recommended Saturday that the political party of exiled former President Jean-Bertrand Aristide be barred from participating in elections because of its alleged support of violence, the Associated Press reported. The seven-member Council of Sages called on the interim government, which the Council appointed, to disqualify Aristide's Lavalas Family Party from electoral competition. "Political groups who identify themselves with the Lavalas Family Party, and particularly with Mr. Jean-Bertrand Aristide, continue to promote and tolerate violence," the Council stated. Lavalas party members have denied involvement in violence that has killed over 700 people in the capital of Port-au-Prince since September. Lavalas leader Rev. Gerard Jean-Juste, considered a possible candidate in the presidential elections to be held later this year, said the Council decision was political. "They are scared of us," Juste was quoted as saying. "They are afraid we are going to win." Party members have said they will boycott elections unless Aristide, who fled the country in February 2004 amid a widespread rebellion against his rule. In contrast to the Council of Sages' recommendation, Haiti's Provisional Electoral Council said

## The Dialogue Continues

*A continuation of the July 13, 2005 Q&A*

**Q** **Peruvian Economy Minister Pedro Pablo Kuczynski this month said mining companies in Peru should be allowed to partly administer government spending—funded with the taxes paid by the companies—on social projects in mining regions. Do you think such a proposal is a good idea? Could the participation of the companies improve the administration of spending on social projects and help reduce popular discontent in mining regions?**

**A** **Guest Comment: Manuel Glave:** "I think this proposal misses the target. It is true that one of the major challenges currently faced by Peruvian society is the quality of the spending of public funds collected through taxes and royalties coming from extractive industries, in particular by the local governments surrounding mining and hydrocarbon operations. Peruvian legislation on *canon*—income tax revenue coming from natural resource industries—and royalties forces local governments to spend these resources only on infrastructure, and requires the for-

mal approval of these expenditures by the National System of Public Investment (NSPI). These are the two bottlenecks faced by local authorities, since they do not have the technical ability to adequately pass through the NSPI, and usually rush into social projects based upon iron and cement rather than investing in enhancing human resources and increasing the stock of their social and human capital. Certainly mining companies could and should help to solve the latter, but through collaborative agreements with local municipalities and regional administrations tackling their own managerial ability, not by formally participating in the administration of these public funds. And more important, there is an urgent need to modify the current legislation allowing the allocation of these funds for investments in education and research and development."

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**Manuel Glave** is a Senior Researcher at GRADE (Group of Analysis for Development) in Lima.

that all parties could participate in upcoming elections. "The election is for all political parties of Haiti," an Electoral Council spokesman said.

## Economic News

### Peruvian Economy Expanded More Than 7 Percent in May

Peru's economy grew a stronger-than-expected 7.13 percent in May compared to the same month of 2004, the government's national statistics institute, INEI, reported Friday. Year-on-year growth in May was well above market and official expectations for an approximately 6 per-

cent expansion, as Peru's economy is buoyed by strong exports, high commodities prices, and growing internal demand. The Andean nation recorded growth in key sectors in May, led by manufacturing (9.55 percent), construction (8.02 percent), and fishing (7.23 percent). The country's mining and hydrocarbons sector expanded 4.75 percent, while agriculture increased 3.01 percent. For the first five months of this year, Peru's economy has grown 5.95 percent, above the 4.24 pace recorded for the same period last year and in line with government forecasts for full-year 2005. The average growth forecast for Peru in 2005 by analysts polled by the *Advisor* at the end of 2004 was 4.1 percent.

**Featured Q&A***Continued from page 1*

types of countries; a faster pace for the services negotiations based on the will of some to push forward sectoral and other initiatives. The fact is that agriculture has moved in Dalian, that industrial products have been moving all along, and that services usually move last as the theme needs the numerical clarity (formulas, percentages, time-limited schedules) of its counterpart negotiating groups before participating countries put their sensitive domestic regulatory regimes on the line. It is not about enough time, but about enough political will. The usual leaders, the US and EU, are reticent for their own, internal reasons. The 'new' leaders, the G-20, do want the Round, but play an awful lot of games. Political fine-tuning can be very quick but it still has to happen."

**A Guest Comment: Shanker Singham:** "The crisis of immobility that WTO Director-General Supachai has referred to is very real. One of the problems is that we are now negotiating some of the most difficult issues in international trade. To complicate matters, as tariffs come down domestic regulatory issues can become major trade obstacles, and negotiation of these involves countries ceding some aspects of their national sovereignty, no easy task for any government. The heart of the problem lies in the manner in which trade negotiations are conducted. The original Cordell Hull inspired mechanisms for tariff reductions harnessed the mercantilist impulse in all countries for a positive purpose (tariff reduction). Unfortunately, the same mercantilist impulse prevents an appropriate response, in particular, to the rules-based negotiations. What is lacking is a focus on the original purposes of trade liberalization—unlocking comparative advantage and thereby optimizing consumer welfare. A renewed focus on the gains for consumers of trade liberalization and competitive markets is needed, and this is particularly important in the services negotiations, where domestic regulatory measures are key barriers. Without this focus, it is

hard to see much progress in Hong Kong, however trade ministers choose to dress up what occurs there."

**A Guest Comment: James Kenworthy:** "I'm not optimistic about either the December WTO ministerial bearing much fruit nor the conclusion of the Doha Round in 2006. The Doha Round negotiations seem to have stalled after the successful framework agreement of last July. Differences exist not only between the developed and developing members, but within each of those groups as well. Agriculture is the centerpiece of the negotiations, and agreement is a condition to success of the overall round. But positions seem still far apart even with the apparent acceptance of a basic approach for tariff reduction, but little agreement on modalities or the numbers that must eventually be plugged into any formula for reduction that may be accepted. Export competition and domestic support are still difficult issues. NAMA (non-agricultural market access) and services negotiations are also stalled with problems again in tariff reduction modalities, while only about 40 members have tabled services offers, and those that have been tabled are not considered acceptable, especially the US' insistence on no new liberalization of Mode 4 cross-border delivery of services through immigration."

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**Javier Tizado** is Associate Director of STRAT Consulting and former Secretary of Industry, Trade, and Investment of Argentina.

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

**Shanker Singham** is Co-Chair of the International Trade, Competition, and Government Group at Steel Hector & Davis, LLP.

**James Kenworthy** is a consultant in international trade and investment.

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**Erik Brand,**  
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Senior Fellow

Subscription Inquiries are welcomed at  
freetrial@thedialogue.org

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