

# Inter-American Dialogue

## Policy Report 2003

# The Troubled Americas



*Inter-American Dialogue* ■ *Sol M. Linowitz Forum*

# The Troubled Americas

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## FOREWORD

This year's Inter-American Dialogue report—our 12th comprehensive policy statement on Western Hemisphere affairs since 1982—analyzes the troubling political and economic developments in Latin America and the Caribbean over the past two years. Since our last report was released in November 2000, we have watched circumstances in nearly every country in the region deteriorate. Growth has come to a standstill, foreign investment has dropped sharply, and unemployment and poverty have worsened. Attractive new leaders have emerged in some places, but political institutions are unsettled in much of Latin America. Several countries confront full-blown national crises that could take years to resolve.

We see little evidence so far of a regional backlash against market economics and democratic politics, but we are concerned that Latin America's citizens and government are losing confidence in the economic and political reforms that, in the past dozen years, have taken hold in most of the region. The challenge, we argue, is to recast and amplify, not jettison, the reform agenda.

We applaud the Bush administration's leadership in advancing U.S.-Latin American trade ties, and note the vital importance for hemispheric relations of negotiating a strong Free Trade Area of the Americas. We express concern, however, that Washington is not as decisively engaged with other hemispheric challenges—at a time that Latin America needs U.S. cooperation and support to deal with a set of particularly difficult problems. This is a moment when creative U.S. leadership can help resolve many outstanding issues in inter-American affairs and take advantage of new economic opportunities.

As a genuinely inter-American group, the Dialogue brings a special perspective to discussions of hemispheric policy. One-half of our 100

members are citizens of the United States. The rest are from Canada and 22 nations of Latin America and the Caribbean. Our membership is also politically diverse. We include Republicans and Democrats from the United States, and supporters of a wide spectrum of parties from elsewhere in the Americas. All of us, however, share a commitment to democratic politics, economic and social progress, and greater cooperation in inter-American relations. The Dialogue's Sol M. Linowitz Forum brings our members together in plenary session approximately once every two years.

The report reflects the consensus of the Dialogue's members. Not every signer agrees fully with every phrase in the text, but—except as noted by individual statements—each of them endorses the report's overall content and tone, and supports its principal recommendations. Signers subscribe as individuals; institutional affiliations are for purposes of identification only.

We want to express our gratitude to President Osvaldo Hurtado for his outstanding leadership of the Dialogue as our Latin American Co-Chair for the past five years. We are pleased to welcome our new Co-Chair, President Fernando Henrique Cardoso, who rejoined the Dialogue this January (and did not take part in preparing this report).

We are also appreciative of the many contributions we have received for the Dialogue's endowment fund, which helps support the Linowitz Forum. Our campaign chairs, John Whitehead and Javier Pérez de Cuéllar, deserve particular thanks, and we are grateful for the strong financial support of our Board of Directors, our members, and others closely associated with the Dialogue. We are especially pleased to acknowledge generous gifts from American Airlines, Andean Development Corporation (CAF), AT&T, Bloomberg Inc., Coca-Cola Corporation, Emerging Markets Partnership, The Ford Foundation,

The Starr Foundation, PhRMA, David Rockefeller, Time Warner, Whitehead Foundation, and other individual and corporate donors too numerous to mention.

Peter D. Bell, Co-Chair  
Fernando Henrique Cardoso, Co-Chair  
Peter Hakim, President

March 2003



## The Troubled Americas

There has not been much good news coming out of Latin America in the past several years. The economies of most countries, beset by the global economic downturn and an array of unresolved challenges at home, have been growing slowly, if at all. Some are deeply depressed. Economic activity in the region as a whole contracted by about 1 percent last year—with per capita income shrinking for the second year in a row. Even the region's most robust economies, Chile, Mexico, and the Dominican Republic, have lost momentum. Unemployment is at record levels, and Latin America's halting social progress has come to a standstill.

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*Brazil's Luiz Inácio Lula da Silva and Colombia's Alvaro Uribe have sparked great enthusiasm in their countries.*

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Some of Latin America's new leaders, most prominently Brazil's Luiz Inácio Lula da Silva and Colombia's Alvaro Uribe, have sparked great enthusiasm in their countries. Still, the quality of governance and leadership—and, indeed, democracy—has been undistinguished in much of Latin America. It is encouraging that, according to the respected Latinobarómetro poll, most Latin Americans continue to prefer, by a wide margin, democracy to dictatorship. The same survey, however, also reveals that they are dissatisfied with their leaders and governments, and with the failure of democracy to meet their most critical demands—for jobs, education for their children, and personal security.

It is not surprising that more and more people are demanding political and economic changes, and that their demands are shaping public debates and deciding the outcomes of elections. Frustrated by the



region's setbacks and failures, citizens and governments alike may be tempted anew by the failed models of the past—populist economic schemes, inward-looking trade and investment policies, and authoritarian solutions to political instability. Where they are tried, these almost certainly will turn out once again to be blind alleys. The challenge for the Americas in 2003 is how to meet the rising pressures for change and social redress, while sticking with political and economic principles that can produce growth, stability, and democracy.

With U.S. foreign policy focused on international terrorism and the prospect of war with Iraq, Washington's response to Latin America's strains has been sporadic and uneven. While the United States has energetically promoted stronger hemispheric trade links, its approach to the region's most severe crises—in Argentina and Venezuela—has been indecisive. A stronger and steadier engagement from Washington would facilitate Latin America's economic revival, and buttress the region's ability to deal with other problems as well.

Today's Latin America is being compared to the region's most troubled periods in the past—including the lost decade of the 1980s, when almost every nation in the region was overloaded with debt and stumbling backwards economically. These parallels cannot be ignored, but neither should they be exaggerated. Latin American nations have made enormous strides in the past two decades in modernizing their economies and establishing democratic rule and respect for human rights. Most countries are working hard and sensibly to address their problems. With a more vibrant global economy and greater U.S. cooperation, Latin America could soon emerge from its current distress.

### **THE CONTINUING TRAGEDIES: VENEZUELA, ARGENTINA, AND HAITI**

Venezuela's bitter political divisions may yet produce a bloody clash between the fervent supporters of President Hugo Chávez and the larger numbers who urgently want him out of power. Just a few years ago,

Chávez was elected with a large popular mandate to overhaul a ruinous economic and political situation. But, during his four years in office, virtually all of the country's long-standing problems have gotten worse. The economy, which has been stagnant for the past 25 years, is now collapsing. Last year, economic activity plunged by some 10 percent and a similar drop or more is forecast this year—with half of the decline resulting from the country's massive strikes. Investment has dried up.

True, the Chávez government has not harshly repressed dissent, arrested opponents, or grossly violated other basic freedoms. It has, however, gutted Venezuela's democratic institutions, eliminated most checks on executive power, given the military an exaggerated public role, and thoroughly divided the nation. Whoever assumes power in Venezuela will face the daunting tasks of rebuilding the economy and political institutions and, at the same time, healing the country's deep political rifts.

The opponents of Chávez, which include almost every major private organization—business associations, labor unions, the media, and many other groups—have shown that they can prevent Chávez from governing. But they remain divided on strategy and tactics, and have not been able to create a unified leadership or develop a cohesive agenda for action. What they agree on is that Chávez should be ousted, and the sooner, the better. Chávez, for his part, has remained intransigent, intent on holding onto power. While the government and opposition forces struggle over their differences, the economy has been devastated and the country is increasingly ungovernable.

Despite their limited progress so far, the negotiations led by OAS Secretary-General César Gaviria, enhanced by the electoral proposals of President Jimmy Carter, still offer the best hope for a peaceful settlement. To succeed, they will require consistent support from OAS member states. Washington's unambiguous and vigorous backing is most needed. The United States, however, has stayed mostly on the sidelines, still smarting from its clumsy handling of the short-lived military coup against Chávez in April 2002. The recent formation of the “friends of

Venezuela” support group, involving the United States, Brazil, Spain, Portugal, Chile, and Mexico, is an encouraging development.

Although its political institutions are far more rudimentary, Haiti’s circumstances parallel those of Venezuela. The Caribbean nation is intensely polarized between supporters and opponents of President Jean Bertrand Aristide. Like the Chávez government in Venezuela, Aristide’s rule is not brutally repressive, but neither is it democratic. His main objective seems to be establishing a monopoly of power in this destitute country. But, the democratic credentials of many in Haiti’s opposition are also questionable. Haiti, after all, is a country that has virtually no experience with democracy, no reliable public institutions, no police or justice system, and a feeble civil society, at best. Lacking a minimal base of trust, politics in Haiti show little capacity for compromise or power sharing.

Political violence is rising in Haiti, while OAS-led negotiations have failed to find a solution. Forceful engagement by the United States—working both to resolve the political deadlock and address Haiti’s humanitarian crisis—could establish a basis for progress. There is more than a grain of truth in the conviction of most Haitians that Washington holds the key to political power in their country. But the U.S. government has been hesitant to become, once again, heavily involved in Haiti’s complicated and messy situation. In the meantime, Haiti’s economy has stagnated, its population grows poorer, and the government barely functions.

Last year was bitter for almost every Argentine. Violent street demonstrations, provoked by the country’s economic breakdown, prompted the resignation of President Fernando De La Rúa in December 2001, less than halfway through his term. His successor, Eduardo Duhalde, took charge after several interim leaders failed to rally support. But he too fell victim to Argentina’s fractious politics—and within months Duhalde was forced to call early elections. During 2002, Argentina defaulted on nearly all its debt obligations, new investments ceased, the

economy shrank by about 12 percent, and the banking system became insolvent. Rates of poverty skyrocketed to 50 percent of the population in what had been, a little more than a year earlier, Latin America's richest nation. Argentines are justifiably angry with their leaders.

The debate about the causes of Argentina's economic crash is still intense. But there is broad agreement that culprits included the adverse global economy, fiscally lax economic management by successive governments, and pervasive corruption. Whether centrally to blame for the crash or not, Argentina's popular convertibility plan, which allowed for the free exchange of dollars and pesos, almost certainly made the crisis deeper and more painful. For some, IMF-promoted economic reforms were mainly responsible for the crisis. Others point the finger at Argentina's failure to implement the reforms fully. But, even now, there is little support for reversing the economic changes of the past decade.

Although increasingly hamstrung by infighting within the Peronist party, a standoff with the legislature and the courts, and clashes with state governors, the Duhalde government was able to bring a measure of stability to Argentina by late 2002. Despite many unresolved issues, the economy enjoyed a slight rebound and Argentina managed to secure a minimal accord with the IMF, averting open default with its official creditors and raising hopes for a continuing recovery. The difficult task of repairing Argentina's politics will begin with the presidential elections, scheduled for April 2003.

Argentina's financial debacle badly damaged its two small neighbors—Uruguay and Paraguay. Paraguay has been stalled economically for the past five years—and its politics have been in disarray as well for most of that period. Uruguay's economy fell by more than 10 percent last year, its fourth successive year of decline. Still, with its more dependable politics and better-managed institutions, Uruguay avoided the kind of political and economic trauma that undid Argentina.

## DISTRESS IN THE ANDES

Venezuela may be the worst afflicted, but every country in the Andean Community is struggling today with economic and political distress.

Colombia is the most embattled nation in Latin America, fighting a multi-front war against well-financed guerrilla forces, paramilitary groups, and criminal drug gangs. Yet most Colombians have become more hopeful since President Alvaro Uribe took office last August. Uribe has put forth a compelling strategy for dealing with the country's problems, and has marshaled broad national support for his approach. Calling for intensified military action against all illegally armed groups, he seeks to expand the government's territorial control, gain decisive battlefield advantage, and set the stage, thereby, for peace negotiations. It is too early to assess whether Uribe's security plans are likely to succeed. But, government security forces have taken the initiative away from the rebels and paramilitary fighters in recent months.

Uribe has also made progress on other fronts. He has managed to secure congressional approval for a series of economic and administrative measures that were needed to restore confidence in the country's finances. With a stagnant economy over the past five years, Colombia's financial situation remains precarious, but the danger of outright default has subsided and the country can continue to borrow on international markets. All told, Uribe has re-energized presidential authority in Colombia, which had been substantially weakened by the constitutional reform of the early 1990s.

Still, President Uribe faces immense risks in the coming months and years. Even with expanded financial and material support from the United States, Colombia's army may not succeed in taking and keeping military advantage over the guerrillas—and, even if it does, the guerrillas could do sufficient damage, particularly in the nation's cities, to undercut public support for the government. Even with the recent

improvement in Colombia's finances, it will be hard to pay for the substantial military buildup that Uribe's strategy demands, without putting the economy in peril.

Moreover, Uribe's proposals have raised concerns in the international community (and among Colombians as well) about the prospects of a wider and dirtier war in Colombia, with less opportunity for negotiations, more refugees, and increased human rights violations. Unless the government addresses its human rights and humanitarian problems aggressively, it may find itself justly condemned internationally and at home. For now, however, Uribe is widely popular in Colombia. His evident determination and decision is heartening to a country that has long been drifting and insecure.

In neighboring Ecuador, elections last year produced an unlikely president, former Colonel Lucio Gutiérrez, a leader of the 2000 military coup that deposed Ecuador's previously elected president Jamil Mahuad. Although his campaign had a strong populist cast, Gutiérrez has committed his government to an orthodox economic course, promising to retain the U.S. dollar as Ecuador's currency, pay the country's foreign debts, and negotiate a new IMF accord—which the country needs to avert another full-scale financial crisis.

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*Gutiérrez is an inexperienced outsider, with minimal support in Ecuador's rancorous Congress.*

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It is hard to be sanguine about Gutiérrez's chances of success, given the nation's economic woes and the abject failure of so many of his predecessors. Ecuadorian politics are among the most unruly in Latin America, and Gutiérrez is an inexperienced outsider, with minimal support in Ecuador's rancorous Congress. He will also have to contend with a politically active military. Gutiérrez, however, is backed by Ecuador's powerful indigenous movement, and many think he can bring fresh energy to a country that has been demoralized in recent years.

After an impressive growth spurt in the early 1990s, the economy of Bolivia—South America’s poorest country—has been stagnant for the past five years. The election last year of Gonzalo Sánchez de Lozada, one of Bolivia’s most successful past presidents, is a reason for some hope—as are the country’s plans to develop its rich natural gas reserves. But, lacking a majority in Congress, Sánchez de Lozada has allied with his traditional rival, creating a potentially conflictive governing coalition. His main opponent is Evo Morales, the leader of the radicalized coca growers. The Bolivian government faces the almost impossible challenge of balancing the demands of Morales and his supporters, who threaten violence against coca eradication efforts, and Washington’s intense pressure for an active eradication campaign.

Peru has advanced both politically and economically. In 2000, Alberto Fujimori’s autocratic and corrupt administration was forced from power by a combination of international pressure and national rejection. A caretaker government, led by Valentín Paniagua, during its nine-month tenure managed to restore significant credibility to Peru’s public institutions and bring about some measure of reconciliation to the country’s divided populace. Elections in June 2001 gave the presidency to Alejandro Toledo, who had demonstrated enormous courage and persistence in leading the battle against Fujimori.

Toledo’s record as president has been mixed. Despite continuing financial problems, Peru posted a growth rate of more than 4 percent last year, the highest in all of Latin America. But, in its first 18 months in office, the Toledo government drifted without consistent direction and its popular support declined sharply. Toledo’s party was roundly defeated in local and regional elections last year, while the once disgraced former president Alan García, who left Peru bankrupt at his term’s end in 1990, emerged as the front-runner for the 2006 presidential elections. Yet, even aside from the economy, there are reasons for cautious optimism about Peru in the coming period. The Toledo and Paniagua governments have made important progress in dealing with the abuse and corruption of the Fujimori era, and democratic practice has been

strengthened. Both the judicial system and legislature are demonstrating considerable independence, and Peru has a fully free press.

## **WELCOME PROGRESS IN CENTRAL AMERICA AND THE CARIBBEAN**

Despite natural disasters and the collapse in coffee prices worldwide, the economies of Central America have, on average, been performing better than those of the rest of Latin America, and the region anticipates further gains from the free trade accord it is now negotiating with the United States. More remarkable has been the uninterrupted stretch of democratic politics—for a dozen years, through many changes of government—in a region that, except for Costa Rica, had hardly known democracy. Although democratic institutions remain embryonic, in nearly every country the press is free and militaries are largely subject to civilian control. Widespread poverty and rampant criminal violence are Central America's two most intractable problems.

The region's largest country, Guatemala, is its most troubled. The 1996 peace agreement, formally ending Guatemala's 35-year civil war, was a vital step toward national reconciliation and social justice for the country's majority indigenous groups. But Guatemalan governments, hobbled by the region's worst corruption, have since done little to implement the accord, and the country remains bitterly divided by race and class. Unlike the rest of the region, the military retains considerable autonomy and authority in Guatemala.

After a dozen years of peace, important political and social changes are visible in El Salvador, which has had the best-managed economy in the region. Although the ARENA party, which has elected three successive presidents, dominates national politics, there are continuing vibrant debates with the opposition parties over key issues. In neighboring Nicaragua, President Enrique Bolaños succeeded, against considerable odds, in coaxing a reluctant Congress to allow former president Arnoldo



Alemán to be prosecuted for corruption. This was an impressive accomplishment, but the close, one vote majority that made it possible underscored how entrenched corruption is in the country. For the past two years, Honduras has grown faster than the rest of Central America, but it continues to struggle economically and politically. Panama, the only country in the hemisphere with a female head of state, Mireya Moscoso, has suffered a depressed economy for the past two years.

Democratic politics is firmly established in the English-speaking Caribbean, and its economies have been growing faster than those of Latin America. The decline in tourism following the U.S. economic downturn and the 9/11 terrorist attacks, however, has been costly for the Caribbean states, whose traditional agricultural exports are also doing badly. Much of the region is tormented by drug trafficking and criminal violence. The Caribbean countries have expanded their cooperation on regional issues, but their small size has made it difficult for them to adjust to global economic changes. In hemispheric trade negotiations and other forums, Caribbean governments contend that their particular needs and concerns are neglected. There is continuing friction with the United States on such matters as immigration, narcotics control, offshore banking, and trade issues.

Cuba's economy has slowed down in the past two years, and would have fallen further if not for subsidized oil shipments from Venezuela. Although no one should expect a significant political opening in Cuba until the departure of President Fidel Castro, it is encouraging that, for the first time ever, a visible opposition to his rule is emerging. Despite the risk of government reprisals against signers, the Varela project collected more than 11,000 signatures on a petition calling for democratic reforms in Cuba. U.S. relations with Cuba are also changing. The U.S. embargo has been loosened to allow some trade between the two countries, although still under restricted conditions—and there now appears to be a majority in Congress that favors more sweeping adjustments in U.S. policies. Even though it remains on the U.S. State Department's list of terrorist countries, Cuba is more a diplomatic annoyance than a serious threat to U.S. security.

## THE BEST PERFORMERS—MEXICO AND CHILE

Even Chile and Mexico, which, along with the Dominican Republic, have stood out as the region's strongest economies in recent years, stumbled in 2001 and 2002. Political and economic frustrations have diminished national confidence in both governments, but neither Mexico nor Chile confronts serious social or political unrest. Indeed, Mexican president Vicente Fox and Chilean president Ricardo Lagos maintain substantial popular support, each with approval ratings of about 50 percent, among the highest in Latin America.

Lagos has achieved some notable successes. Most important, Chile concluded free trade agreements with both the United States and the European Union, and the government adeptly managed the sensitive politics of former dictator Augusto Pinochet's return to Chile. But growing discord among the parties in Chile's governing coalition and an unexpected corruption scandal have been politically disruptive. Although largely driven by external factors, the country's economic slowdown has also been a source of discontent. Following a 6 percent a year expansion throughout the 1990s, Chile's economy grew by little more than 2 percent annually over the past two years.

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*Mexico is changing, but more gradually  
and grudgingly than Fox had sought.*

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After his historic electoral triumph in 2000 over the candidate of the Institutional Revolutionary Party (PRI), which had dominated Mexican politics for 71 years, Fox proposed an accelerated agenda of political and social reform. Set against the new government's ambitious goals, progress has been slow, constrained by an opposition majority in Congress and frictions within the Fox administration. Mexico is changing, but more gradually and grudgingly than Fox had sought. The most important setback for his government may have been the post-9/11 cooling of the U.S.-Mexican relationship, which forestalled a high profile, Mexican-led initiative to restructure immigration policies in the two countries.

Another disappointment has been the Mexican economy. Buffeted by the slumping U.S. economy, it grew by less than 1 percent total in the last two years, after five years of 5 percent plus annual expansion.

### **BRAZIL AS THE BELLWETHER**

**T**he future course of Latin America will be decisively shaped by events over the next years in Brazil. On January 1, labor leader and founder of the left-wing Workers' Party (PT) Luiz Inácio Lula da Silva, universally known as Lula, was inaugurated president of Brazil, after an overwhelming triumph in last year's elections—and an exemplary transition period.

The accomplishments of Lula's predecessor, Fernando Henrique Cardoso, are widely recognized. His two-term government, over eight years, brought new stability to Brazil's economy, put greater order in the nation's politics and institutions, and began to face up to the country's deep social needs. Opposition candidate Lula triumphed, nonetheless, because Brazilians, like other Latin Americans, have been dissatisfied by the slow, uneven pace of economic and social change.

For the past five years, Brazil's economy has been flat; in only one year has growth exceeded 2 percent. Wages are low, jobs are scarce, massive income and wealth inequalities persist, and criminal violence has become more pervasive and more vicious. Brazilians elected Lula because they want him to make good on his campaign promises to reactivate growth and boost employment; attack poverty, hunger, and race discrimination; and push the social agenda faster and harder than his predecessors. Managing the conflicting demands of many different constituencies, maintaining financial stability and, at the same time, taking significant steps to address human and social needs, will fully test Lula's political skills and leadership.

It will not be easy for Lula to get his way with Brazil's notoriously uncooperative Congress, where his Workers' Party holds less than one-fifth

of the seats. Even counting the votes of allied parties, his government coalition will be a minority in both houses. Opposition parties also control the bulk of Brazil's powerful state governments. Still, Lula comes to office with one great asset. He has enormous popular support and good will across the political spectrum. The great majority of Brazilians want him to succeed.

During the electoral campaign, Brazil seemed headed toward an Argentine-style financial collapse. As Lula's advantage in the polls widened, investors became increasingly apprehensive about the prospect of a populist-led government in Brazil. A \$30 billion IMF rescue package partially reassured world markets. Even more reassuring were Lula's policy statements and cabinet appointments in the weeks following his election. Lula has assembled an orthodox team of economic managers and advisors—giving immediate credibility to his pledges to stick to the IMF program, meet Brazil's debt obligations, and sustain market economic reforms. Indeed, expectations are now high that the Lula government will pursue needed reforms of the country's badly flawed labor, tax, and social security legislation. Lula has also made clear that, although Brazil will be a tough and demanding negotiator, it will participate fully in hemispheric free trade talks.

If Lula succeeds, even modestly, not only would the prospects of economic recovery improve throughout Latin America, but the region's otherwise dispirited politics would also receive a substantial boost. His success would demonstrate that, within a modern and disciplined economic policy framework, Latin America has ample room for political choice and social progress. It would underscore the fact that responsible economic management and effective social policies go hand in hand.

### **THREE IDEAS THAT CHANGED LATIN AMERICA**

**L**atin America is in distress. A few countries are in out-and-out turmoil. Many others have lost ground, economically and socially, in the past two years. Nations across the region are politically unsettled.

Yet, viewed in historical perspective, Latin America has made impressive progress. The region today is far better off than it was in the 1980s, when the debt crisis had depressed almost every Latin American economy. From 1981 to 1990, average income fell in 17 of 20 Latin American countries, year after year capital flowed out of the region, and sky-high inflation devastated the economies of several nations. Most Latin American countries were either just emerging from repressive military dictatorships or still struggling toward civilian rule. Central America was ravaged by brutal civil wars that produced massive human rights violations and a humanitarian crisis in the region. Every one of the Inter-American Dialogue's five hemispheric policy reports in the 1980s focused on these problems—Latin America's crisis of high debt and no growth, the region's difficult transitions toward democracy, and the destructiveness of Central America's wars.

During that period, three powerful ideas gained wide support among Latin America's political and intellectual leadership—and began to reshape the region's political and economic course.

- ▶ The first was that democracy and elections are the only acceptable way to gain and exercise political power. With the inauguration of Patricio Aylwin in Chile in 1991, an elected president or prime minister headed every country in the Western Hemisphere, save Cuba. Aside from Haiti, no military regime has assumed power in the region since the Argentine coup in 1976. In addition, over the past dozen years, there has been a striking expansion in the authority and responsibility of the member countries of the Organization of American States (OAS) to respond collectively to threats against democratic rule in the Americas.
  
- ▶ The second idea was that Latin America's economies should be reorganized along market lines, and opened to international trade and investment. In country after country, state-owned enterprises were sold to private buyers, new discipline was imposed on national budgets to keep expenditures in line with revenues, and barriers to trade

and capital movements were dismantled. By the early 1990s, these and other reinforcing economic reforms, codified as the “Washington Consensus,” had become the mainstays of economic policy across Latin America.

- ▶ The third idea was that, in order to succeed economically, Latin American nations needed to build constructive partnerships with the United States. Nearly every Latin American government responded enthusiastically to the first President Bush’s call in 1990 for a hemisphere-wide free trade arrangement. The approval of NAFTA in 1993, which brought Mexico into a free trade pact with the United States and Canada, was widely applauded in Latin America. At the 1994 Miami Summit of the Americas, all 34 participating heads of state agreed to complete negotiations for a hemispheric free trade pact by 2005.

These ideas continue to hold sway in nearly every country of the region—but their credibility has diminished because of Latin America’s economic and political shortfalls in recent years, coupled with a disappointing lack of commitment from Washington. Most Latin Americans want to preserve democracy, but citizens are losing trust in their own democratic governments and institutions. The conviction that market policies can produce economic growth and jobs, and adequately meet social needs has faded, and skepticism has grown about the value of closer cooperation with the United States. Yet, no one has come up with better or more powerful alternatives to replace these ideas. The central challenge is still to make them work in practice.

### **BOLSTERING DEMOCRATIC POLITICS**

**R**estoring democratic rule and building respect for human rights has been Latin America’s most notable accomplishment in this generation. Regular, free elections, growing civil societies, expanding press freedoms, progress toward gender equality, and efforts to contend with race and ethnic discrimination are healthy signs of the region’s demo-

cratic culture. Although support for democracy may have slipped in the past few years, few Latin Americans want to turn the clock back to military rule.

Autocratic, even oppressive leaders may occasionally be elected and abuse their power, but under most circumstances their legitimacy and capacity to govern cannot be sustained for long. The authoritarian option has become unthinkable in most of Latin America today.

The main concern, in short, is not whether democracy will survive. Rather, what is at issue is the quality of democratic governance and politics across Latin America. Only a few Latin American nations enjoy vibrant democracies—Costa Rica, Chile, Uruguay, and Brazil are among them. Some countries face outright political crises, with no decision-making authority that is widely accepted as legitimate, no agreed-upon rules to manage conflict, and few, if any, credible leaders and institutions. Politics and governance remain weak in many other nations, where national and local institutions are unresponsive, civil society is listless, and corruption is pervasive.

There are no simple or short-run formulas for revitalizing Latin America's politics. Several challenges have defied solutions almost everywhere.

- ▶ Strong, representative political parties are essential for good politics. But, no one has figured out how to revive the badly deteriorated, sometimes moribund party systems of so many Latin American countries. Political parties are the least-respected institutions in the region, falling below legislatures, judicial systems, and national police forces; in a recent poll not a single Argentine expressed confidence in the nation's political parties. Yet, virtually every one of the world's sturdy democracies—in Europe, Asia, and Latin America—has a healthy party system.

- ▶ Latin America also needs stronger political leadership. To be sure, there have been outstanding Latin American leaders in recent years, and many others who governed effectively. But too often, citizens have been let down by their elected officials. Far too many presidents have turned out to be feckless or dishonest, or both. The large number of presidents forced from office in recent years, although for different reasons and under different circumstances, illustrates the depth of Latin America's leadership problems. Ineffectual executive leadership can be particularly damaging in Latin America, where deficient political institutions, lack of accountability, and absence of checks and balances already stand in the way of good governance.
  
- ▶ Common crime has become a nightmare for most Latin Americans, overwhelming the region's mostly under-financed, poorly trained, and often corrupt police and judicial systems. Latin America leads the world's regions in kidnapping, and its homicide rate is twice the global average. With the spread of drug trafficking and gang activity, nearly every city and town is more dangerous and violent than it was even a half-dozen years ago. Confidence in democratic governments is bound to falter if they cannot better protect the personal security of their citizens.
  
- ▶ Finally, democracy in Latin America is unlikely to thrive while economic growth is anemic, unemployment is at record levels, poverty and steep inequality are pervasive, and most people believe their lives will be worse than those of their parents. Under conditions of continuing economic and social distress, regardless of its source, no government can sustain the confidence and support of its citizens. It is not surprising that, in country after country, restoring economic growth is the highest priority for governments, regardless of their political perspective. In most nations, U.S. economic cooperation, in the first instance through the successful completion of a strong hemispheric trade agreement, is viewed as vital.



## REBUILDING THE CONSENSUS FOR ECONOMIC REFORM

Despite Latin America's economic troubles, no country in the region has yet retreated from market economic policies. Throughout the region, however, doubts have multiplied about the benefits of free trade and about the pace and breadth of economic reform efforts. No wonder. After a decade or more of intense reform, per capita growth has stagnated since 1998, the average person is getting poorer, jobs remain scarce, national debts have piled up, and many economies remain trapped in up and down, roller coaster cycles.

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*Latin America's economies  
have been managed unfairly*

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Skepticism about the prevailing economic wisdom also reflects the widespread perception—and frequent reality—that Latin America's economies have been managed unfairly, with benefits going to a tiny minority while leaving most people poorer. With burgeoning numbers of high-priced automobiles, new shopping plazas, and luxurious apartment buildings across the region, many parts of Latin America look and feel a lot more prosperous than they did ten years ago. But, as income statistics make clear, the majority of citizens are no better off today than they were one and two decades back.

If not quite the backlash many had predicted, public support for market economic reforms has dwindled in Latin America. But there is still wide agreement that sustained and faster growth—an elusive goal for nearly 25 years now—has to be at the core of any solution to the region's economic and social woes. To achieve the needed pace and consistency of growth, Latin American countries have to keep their markets open, emphasize exports and competition, and facilitate foreign investment and technology sharing. Countries can best reduce the risk of market volatility and external contagion, not by turning inward,

but instead by avoiding large fiscal deficits, building their competitiveness, and maintaining a tight check on external borrowing.

To improve living standards, Latin America needs to strengthen and refashion, not abandon, its reform agenda—so that it addresses, more directly and more effectively, the problems of gross inequities, massive poverty, backward and unequal education systems, and personal economic insecurity. In 2001, a joint commission of the Inter-American Dialogue and Carnegie Endowment for International Peace proposed a series of specific measures to deal with these challenges, including:

- ▶ Building social safety nets for the poor that are quickly triggered during financial crises; for example, emergency public works programs and family grants to keep children in school.
- ▶ Lowering subsidies for better-off university students to increase public spending on preschool and primary school programs.
- ▶ Reducing tax evasion and closing tax loopholes that benefit upper income groups.
- ▶ Reducing the onerous red tape that hampers small businesses and providing them with expanded credit, access to information, and professional services.
- ▶ Revising archaic labor laws that do little to protect workers and discourage job creation and mobility.
- ▶ Frontally attacking racial and ethnic discrimination and exclusion.
- ▶ Expanding opportunities for rural land ownership through market and community-based reform initiatives.

Advances on these issues will result in a more even-handed economic policy with fairer outcomes for most people. That is what it will take to

build more consistent and durable public support for growth-producing reforms. In addition, improvements in the welfare of the poor will themselves, according to accumulating evidence, help to spur growth. The economic reform agenda for Latin America has not been wrong. It has been too narrow and unimaginative.

## **REINFORCING U.S.-LATIN AMERICAN TIES**

**F**or most of the 1980s, U.S. relations with Latin America were tense and sometimes conflictive. The Inter-American Dialogue was founded in 1982 to respond to the discord between the United States and Latin America. When Great Britain and Argentina went to war that year, most Latin Americans were dismayed by Washington's support for Great Britain. The United States and Latin America were at odds over how to deal with the debt crisis that also began in 1982 and left the region economically depressed for nearly a decade. They clashed as well over U.S. policy in Central America.

It was during the first Bush administration, at the end of the Cold War, that U.S.-Latin American cooperation began to flourish. President Bush launched the Brady plan in 1989 to resolve Latin America's debt problems. His administration helped to settle Central America's long-festered civil wars, initiated NAFTA negotiations with Mexico and Canada, and launched the idea of hemisphere-wide free trade. Carrying these Bush initiatives forward, the Clinton administration fought for congressional ratification of the North American Free Trade Agreement and convoked the first summit meeting of Western Hemisphere heads of state since 1967.

Most Latin American governments, however, were disheartened by the Clinton administration's failure to obtain congressional approval of fast track authority, which had become emblematic of U.S. interest in economic cooperation with Latin America. Clinton's quick and helpful responses to the financial crises of Mexico and Brazil in 1995 and 1998 were applauded in Latin America, but, by the end of his term, the trade agenda had lost steam and Latin America's economies had begun to sour.

Before he took office, George W. Bush announced that Latin America would be a central priority of his administration. He emphasized two goals: enhancing U.S. links with Mexico, which he later called the most important U.S. relationship in the world, and building toward economic and trade partnerships with every country of the hemisphere. Latin American governments welcomed Bush's attention, but the Al Qaeda attacks of September 11, 2001 intervened and produced an abrupt redirection of U.S. foreign policy.

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*The Al Qaeda attacks produced an abrupt  
redirection of U.S. foreign policy.*

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In Latin America today, a year and a half after the attacks, the view is widespread that Washington has lost interest in the region. Latin Americans were disturbed by what they perceived as Washington's indifference to the collapse of Argentina's economy last year. Many were also troubled by the Bush administration's willingness to countenance the April 2002 military coup against Hugo Chávez, the rapid decline in U.S. policy attention to Mexico after 9/11, and then treasury secretary Paul O'Neill's criticism of the region's economies. Most Latin Americans are uneasy as well about Washington's single-minded emphasis on the battle against terrorism, and about the prospect of preemptive war in Iraq.

## **THE ADVANCING TRADE AGENDA**

Yet, on one crucial front—trade policy—the Bush administration has made dramatic and widely acknowledged progress. In July 2002, the White House gained congressional approval of fast track, now called Trade Promotion Authority (TPA), giving the administration the mandate it needed to negotiate the Free Trade Agreement of the Americas (FTAA) and other regional trade accords. The White House also secured long-awaited trade preferences for the Andean Community nations, initiated free trade talks with Central American countries, and successfully completed a free trade accord with Chile. These advances were all broadly welcomed in Latin America, although

the region's enthusiasm was dampened by the administration's earlier decisions to impose hefty new tariffs on imported steel and sharply raise U.S. farm subsidies.

A lot is now riding on the success of the FTAA negotiations. More than any other inter-American measure, the FTAA will provide the essential underpinnings for a long-term, constructive U.S.-Latin American relationship. It will give Latin American nations what they most need and want from Washington—secure access to U.S. markets, investment capital, and technology. A free trade deal with the United States will also bolster political support for Latin America's economic reform agenda. U.S. interests will also be well served by opening and expanding hemispheric trade. This is the best opportunity ever for the United States to build a genuine, multilateral partnership with Latin America. Nothing would more enhance the credibility of U.S. leadership in the region.

It will not be easy for the nations of the Americas to clinch the FTAA agreement, particularly by the January 2005 target date. To make the negotiations succeed, Washington will have to agree to dismantle at least some of its most egregious curbs on Latin America's exports, even in the face of powerful U.S. political constituencies. Agriculture will be an especially difficult stumbling block—first, because it is such a politically sensitive and troublesome issue for the United States and, second, because it is so economically critical to Latin America.

Reaching a favorable agreement on agriculture will generate huge benefits for both Latin America and the United States, but it will require major concessions from both sides. The U.S. administration will have to muster sufficient political resolve to bring down U.S. tariffs, some in excess of 100 percent, on a range of food and other commodities produced in Latin America. In exchange, Latin American governments will have to open up their economies far more than they are today to U.S. services, manufactured products, and investment. This is what it will take to secure the kind of FTAA needed to reinvigorate the hemisphere's economies.

## OTHER CHALLENGES

The successful negotiation of a strong FTAA would be a giant step forward for inter-American relations. Ratifying the U.S.-Chile free trade accord and reaching a U.S.-Central America agreement will also be key advances. But other hemispheric challenges need to be addressed as well. The United States has a central role to play in meeting these challenges—which Latin American nations are not able to resolve on their own. Washington cannot solve them alone either. Making headway will require sustained inter-American cooperation.

- ▶ Argentina's economic and political turmoil is a collective problem for every nation of the hemisphere. It is easy to agree that Argentina's leaders bear most responsibility for the crisis, but the nation's broken economy endangers the economic future of its neighbors (and, possibly, the entire region). Washington, particularly, needs to be more directly and energetically engaged in finding solutions. IMF resources and technical expertise are crucial, but so is U.S. political leadership. Washington should make clear that, following presidential elections in April, it will be prepared to work closely with Argentina's next administration toward the nation's full recovery, and not wait on the sidelines for the new Argentine government to struggle on its own.
- ▶ Latin America's recent history of devastating economic reversals underscores the need for regional economic cooperation that goes beyond trade. The hemisphere's financial leaders, with the U.S. Treasury taking a prominent role, should seek to devise cooperative strategies to defend against financial crises—developing mechanisms to help countries better manage debt and international capital flows, reduce the damage of crises when they occur, and help prevent their spread from one economy to the next. U. S. and Latin American financial leaders should also begin to establish common macroeconomic policies and targets in such key areas as inflation, exchange rates, budget deficits, and debt burdens (in the fashion of Europe's Maastricht cri-

teria and Mercosur's policy harmonization initiative). Macroeconomic convergence among the hemisphere's nations would help to bolster growth and stability and multiply the benefits of free trade.

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*The treacherous political crises of  
Venezuela and Haiti are shared  
problems for the entire hemisphere.*

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- ▶ Like Argentina's troubles, the increasingly treacherous political crises of Venezuela and Haiti are shared problems for the entire hemisphere. There is wide recognition that the OAS offers the most promising path toward a peaceful and democratic settlement in these two distressed nations. So far, however, the OAS has failed to achieve results in either place—and the prospects for intensified violence in both Haiti and Venezuela are rising. Although there are many obstacles to success, one problem stands out. The senior OAS officials managing the negotiations, Secretary General Gavia in Venezuela and Assistant Secretary General Luigi Einaudi in Haiti, have not had the full and unambiguous backing of OAS member states. That support, particularly from the United States, is essential. Washington's vigorous engagement is needed both to press for solutions in the two countries, and to mobilize the participation of other governments. The Inter-American Democratic Charter, approved in Lima on September 11, 2001 could become a dead letter, if collective action does not coalesce to end the political paralysis and escalating hostility in Venezuela and Haiti.
- ▶ No foreign policy issue is more important to the U.S. government today than the battle against international terrorism. Washington should be able to count on the support of Latin American governments, even though this is not a high priority for the region. Mexico and Canada, whose assistance is especially vital, have both cooperated extensively with the United States on security matters since September 11. It is in every country's interest to work with the United States to curtail money laundering, whether by drug crimi-

nals or terrorist networks. For its part, the more Washington is prepared to systematically engage Latin America's problems, the more the nations of the region will be inclined to cooperate with the United States on security matters.

- Colombia's national security problems, far and away the most dangerous in the hemisphere, threaten the nation's territorial integrity and the survival of its democratic government. They, too, should be of collective concern for the entire region. In his first months in office, President Uribe has set a promising course, but he needs external support to reestablish governmental authority throughout Colombia, address humanitarian and human rights challenges, and build conditions for peace negotiations. Continuing U.S. assistance, political, financial, and military, is vital to Colombia, as is Washington's help to mobilize political and economic support from Latin American and European nations.

Aside from a sagging global economy and sharp swings in capital flows to the region, there is no single cause or common set of causes that explain Latin America's malaise. Each country is fighting a different mix of problems and disorders. In some countries—Venezuela, Haiti, and Argentina, for example—leadership failures seem to be paramount, sometimes compounded by the discrediting and collapse of political parties. Colombia is the only country beset by guerrilla war, but social upheavals have disrupted several others, particularly countries with large indigenous populations such as Ecuador, Bolivia, and Guatemala. Often associated with and intensified by political shortcomings, economic policy miscalculations are taking a major toll in some countries. But, if there is no common explanation for Latin America's ills, there is also no shared remedy that will respond to every country's needs. Each country's government and citizens will bear most responsibility for finding and implementing their own solutions.

What is just as clear, however, is that U.S. policies and actions can make an important difference. Washington has considerable power to



shape events and determine outcomes in Latin America. With U.S. leadership, the hemisphere's free trade agenda is steadily advancing. Stronger leadership from Washington could help address other regional economic challenges. An engaged United States may have helped to avert, or at least temper, the crises in Argentina and Venezuela, and certainly Washington can now do more to assist both countries, and several others, in resolving their problems. By doing so, the United States would be serving its own interests as well.

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*Washington has considerable power  
to shape events in Latin America.*

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The United States can most effectively advance its objectives in the hemisphere by using its power not for short-term political gains, but to promote shared regional interests and values—and to rally other nations to the task. Multilateral, cooperative approaches to shared problems are preferred to unilateral action, but multilateralism can only work when the United States is prepared to commit its power and resources.

In contrast to earlier periods in inter-American history, the United States and Latin America now mostly share the same values and goals. That fact makes cooperation easier and more productive—and indifference and distrust less defensible.

## SUPPLEMENTAL COMMENTS

### **Raúl Alfonsín**

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I want to highlight a vital issue that is not sufficiently addressed in the report. As in the 1980s, many countries of Latin America are struggling to manage their debt obligations. In Argentina and elsewhere, the size of the debt is reflected in country risk levels, which reduce growth prospects and create unsustainable fiscal situations. This has weakened the credibility of many governments, aggravating the effects of the economic stagnation of the past four years, of deteriorating social conditions, and of increasingly unequal income distribution. The report should emphasize the need to find solutions to Latin America's debt problems. The IMF's proposal to allow countries to seek "bankruptcy protection" sounds neither reasonable nor responsible to me.

### **Nicolás Ardito-Barletta**

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Panama should be included in the U.S. free trade negotiations with Central America.

### **Jimmy Carter**

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The characterization of Venezuela's polarization is overstated. While there is an extreme hard core for and against Chávez, there is a sizable group of moderates (for and against) who want a peaceful, negotiated solution. As part of our role in the Tripartite Working Group with the OAS and UNDP, The Carter Center put two concrete proposals for an electoral solution on the table in late January which both sides are now discussing.

### **Eugenio Clariond Reyes-Retana**

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While I agree with the three main ideas of the report—democracy, market orientation, and partnerships—the concept of poor management in Latin America is missing. Mexico's president Fox is a good example of how poor management can be ruinous even if all the other fundamentals are in place. When Fox came to power, Mexicans expected to see a rationalization of the PRI-created over-sized bureaucracy.

Instead, he created new government agencies, making free enterprise even more difficult. With the exception of Chile, all of our countries have a terrible management problem. If we are not able to improve the way our countries are managed, democracy, the Washington Consensus, open economies, and trade agreements are not going to help us develop nor reduce poverty and inequality.

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**Lee Cullum**

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As a journalist, I cannot endorse this report, but I certainly respect the seriousness with which it is written. This is a sobering assessment that compels the attention of policy-makers.

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**Karen DeYoung**

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As a practicing journalist who covers U.S. policy, I cannot offer a judgment regarding the report's recommendations.

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**Alberto Ibargüen**

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I am in a similar position to that of Lee Cullum. I agree with her and also respect the report as a serious, thoughtful assessment that should be considered by policy makers throughout the hemisphere.

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**Abraham F. Lowenthal**

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The international environment is increasingly unstable and dangerous, with the prospect of war looming. The world economy suffers from overcapacity and stagnation, exacerbated by growing income disparities. Competition among developing countries for investment and markets is becoming more intense. A gathering crisis of governance is affecting many countries: not only in the developing countries but in the First World, not only in the governmental sphere but in corporations, religious institutions and the communications media. Latin America's severe problems cannot be separated from these wider currents, which reinforces the importance of forging constructive inter-American cooperation to face shared challenges.

## **Peter McPherson**

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The report makes many sound observations, but there are several others that I don't agree with, e.g., I don't agree at all that the United States did little in the 1980s to try to aid the economic recovery of Latin America. In brief, the report is not always balanced in assessing U.S. government actions, and overall the tone of the report does not imply equality in the relationship or partnership between the United States and Latin America—it insufficiently acknowledges failings on each side. The aftermath of 9/11 has distracted attention from almost everything else; I do agree with the report's message that it is important for the United States to focus again as soon as possible on Latin America.



## MEMBERS OF THE INTER-AMERICAN DIALOGUE FROM LATIN AMERICA, THE CARIBBEAN, AND CANADA

**Raúl Alfonsín** was president of Argentina from 1983 until 1989. He presides over the Institute of International Relations of the Radical Party.\*

**Andrés Allamand** is development director at the Universidad Adolfo Ibañez, in Chile. He was a founder and president of the National Renovation Party (RN), and served as a member of congress.

**Nicolás Ardito-Barletta** was president of Panama from 1984 until 1985 and World Bank vice president for Latin America and the Caribbean from 1978 until 1984. He now serves as president of the board of the Panamanian Development Corporation.\*

**Oscar Arias** is founder of the Arias Foundation for Peace and Human Progress. He served as president of Costa Rica from 1986 until 1990, and received the Nobel Prize for Peace in 1987.\*

**Lloyd Axworthy** was minister of foreign affairs of Canada from 1996 until 2000. He is now director and CEO of the Liu Centre for the Study of Global Issues at the University of British Columbia.

**Roberto Baquerizo** is managing director of ProVentures, a New York-based consulting and investment firm in Latin America and Africa. He was the governor of the Central Bank of Ecuador.\*

**Sergio Bitar** is president of the Corporación para la Innovación Política in Chile. He has been a senator, president of the Pro Democracy Party (PPD), and minister of mining.\*

**José Octavio Bordón** is minister of education, culture, science & technology for the province of Buenos Aires. He was governor of the province of Mendoza in Argentina, national senator, and candidate for president.\*

**Epsy Campbell Barr** is a representative in the Costa Rican national assembly and is the leader of the new Costa Rican political party, Citizen Action Party (PAC). She is a member of the Network of Afro-Latin American and Caribbean Women.\*

**Fernando Henrique Cardoso** was two-term president of Brazil. He was also a senator from São Paulo and served as both finance and foreign minister.\*

**Edwin W. Carrington** is secretary-general of the Caribbean Community (CARICOM) in Trinidad and Tobago.\*

**Margaret Catley-Carlson** was president of the Population Council, deputy minister for health and welfare in Canada, president of the Canadian International Development Agency, and deputy executive director of UNICEF. She now chairs the Global Water Partnership.\*

**Fernando Cepeda Ulloa** is professor of political science at the University of the Andes. He was minister of government in Colombia.\*

**Violeta Barrios de Chamorro** was president of Nicaragua from 1990 until 1997. (*Emeritus*)

**Eugenio Clariond Reyes-Retana** is president and CEO of Grupo IMSA. He serves as chairman of the Business Council for Sustainable Development-Latin America.\*

**Oliver F. Clarke** is chairman of the board and managing director of The Gleaner Company, Jamaica. He was 1990 recipient of the Americas Award and president of the Inter American Press Association.\*

**Jonathan Coles Ward** is president of the Institute for Advanced Management Studies (IESA). He was Venezuela's minister of agriculture and livestock.\*

**José María Dagnino Pastore** is professor of economics at the Catholic University of Argentina. He has served as minister of finance, minister of economy and labor, head of the National Development Council, and ambassador-at-large in Europe.\*

**Fernando Espuelas** is co-founder and chairman of VoyGroup. He was managing director of marketing communications for AT&T Caribbean and Latin America. Espuelas is a native of Uruguay.\*

**Leonel Fernández** was president of the Dominican Republic and serves as president of the Global Foundation for Democracy and Development.

**Lourdes Flores Nano** served as a member of congress in Peru for ten years. She was general secretary of the Popular Christian Party (PPC) and is the current Andean area vice president of the Christian Democratic Organization.\*

**Alejandro Foxley** is a national senator, and was finance minister of Chile.\*

**L. Enrique García** is president and CEO of the Andean Development Corporation (CAF). He was Bolivia's minister of planning and coordination and head of the economic and social cabinet.

**Diego García-Sayán** was director of the Andean Commission of Jurists, congressman, minister of justice, and minister of foreign affairs of Peru. He is now president of the working group on enforced disappearances of the United Nations and professor at the Universidad Católica in Lima.\*

**Xabier Gorostiaga, S.J.** is executive secretary of the Association of Jesuit Universities in Latin America (AUSJAL). He was rector of the Universidad Centroamericana in Nicaragua.

**José Angel Gurría** was Mexico's minister of finance and minister of foreign relations.\*



**Oswaldo Hurtado** was president of Ecuador, and presided over the Constitutional National Assembly. He is now president of CORDES, a research center in Ecuador.\*

**Enrique V. Iglesias** is president of the Inter-American Development Bank. He was foreign minister of Uruguay.

**Bolívar Lamounier** is founder and research director of the Institute of Economic, Social and Political Studies of São Paulo (IDESP) in Brazil. He has been partner at MCM consulting firm.\*

**Luiz Felipe Lampreia** was foreign minister of Brazil, and is now chairman of the Brazilian Center for International Relations (CEBRI).\*

**Nora Lustig** is president of the Universidad de las Americas-Puebla, Mexico. Previously she was chief of the Poverty and Inequality Unit at the Inter-American Development Bank.\*

**Carlos Elizondo Mayer-Serra** is general director of the Center for Economic Research and Teaching (CIDE) in Mexico. \*

**Barbara J. McDougall** is president of the Canadian Institute of International Affairs. She was Canadian secretary of state for external affairs, minister of state (finance), minister of privatization, and minister of employment and immigration.\*

**Roberto H. Murray Meza** is president of La Constancia, El Salvador's largest brewery, and of its holding company, AGRISAL.

**Moisés Naim** is editor of Foreign Policy. He was Venezuela's minister of trade and industry.\*

**Beatriz Nofal** was a national deputy for the City of Buenos Aires, Argentina and is currently president of Eco-Axis, a consulting firm specializing in development, trade and regional integration. She served as under-secretary of industry and commerce \*

**Gabriela Nuñez de Reyes** was minister of finance of Honduras. She is now executive vice president of Banco Atlantida, one of the largest private banks in Honduras.\*

**Sylvia Ostry** is a distinguished research fellow at the Centre for International Studies at the University of Toronto and a member of the G-30 in Washington.\*

**Enrique Peñalosa** was the mayor of Bogotá, Colombia. He has served as economic secretary to the president of Colombia.

**Sonia Picado** is president of the board of the the Inter-American Institute of Human Rights. She was a member of congress in Costa Rica and president of the National Liberation party. She was ambassador to the United States and executive director of the Inter-American Institute of Human Rights.\*

**Jacqueline Pitanguy** is the founding president of CEPIA, a private research organization on women's issues in Brazil. She was the president of the National Council of Women's Rights.\*

**Jorge Quiroga** was the president of Bolivia. He is now public policy scholar at the Woodrow Wilson Center for Scholars in Washington, DC.\*

**Nicanor Restrepo** is president of Compañía Suramericana de Seguros. He was president of the Latin American Business Council (CEAL) in Colombia and of the Corporación Financiera Suramericana.

**Andrés Rozental** is president of the Mexican Council for International Relations. He has served as deputy foreign minister, Mexico's ambassador to the United Kingdom and to Sweden, and permanent representative of Mexico to the United Nations in Geneva.\*

**Julio María Sanguinetti** was president of Uruguay.\*

**Noemí Sanín** was Colombian minister of foreign relations and served as Colombian ambassador to Venezuela and the United Kingdom. She is a director of the Bank of Bogotá.

**Juan Manuel Santos** was Colombia's vice-president and minister of trade during the Gaviria administration. More recently he served as minister of finance. He is now president of Fundación Buen Gobierno.\*

**Jesús Silva-Herzog** was finance minister of Mexico and ambassador to the United States and Spain.\*

**Eduardo Stein** was minister of foreign affairs of Guatemala and led the OAS Electoral Observation Mission to Peru. Stein was active in the Guatemalan peace process.

**Roberto Teixeira da Costa** is vice chairman of the board of Banco Sul America and chairman of the Latin America Business Council (CEAL). He was founder of the Brazilian Securities and Exchange Commission.\*

**Mario Vargas Llosa** is a distinguished Peruvian novelist. He was candidate for president of Peru in 1990.\*

**Joaquín Villalobos** is a former leader of the FMLN of El Salvador. He is a visiting scholar at St. Antony's College of Oxford University in the United Kingdom.\*

**Elena Viyella de Paliza** is president of Grupo Inter Química in the Dominican Republic.\*

**Ernesto Zedillo** was president of Mexico. He is now director of the Yale University Center for the Study of Globalization.\*

## MEMBERS OF THE INTER-AMERICAN DIALOGUE FROM THE UNITED STATES

**Cresencio Arcos** was AT&T's vice president and managing director of public affairs for Latin America and Canada. He has served as ambassador to Honduras and senior deputy assistant secretary of state for international narcotics.\*

**Bernard Aronson** was assistant secretary of state for inter-American affairs. He is currently managing partner of Acon Investments.\*

**Michael Barnes** is president of the Brady Center to Prevent Gun Violence and the Brady Campaign to Prevent Gun Violence. He was a member of the U.S. Congress (D-MD) and chaired the Subcommittee on Western Hemisphere Affairs.\*

**Alan Batkin** is vice chairman of Kissinger Associates.\*

**Peter D. Bell** is president of CARE USA, the international development and relief agency.\*

**Jimmy Carter** was president of the United States from 1977 until 1981 and governor of Georgia from 1971 until 1975. He is chairman of the board of the Carter Center in Atlanta, and chairman of the Carter Center's Council of Presidents and Prime Ministers of the Americas.\*

**Joyce Chang** is global head of emerging markets research at JP Morgan Chase & Co, where she oversees the firm's research strategy in bond markets outside of the United States.\*

**Lee Cullum** is a contributing columnist to the *Dallas Morning News* who has done frequent commentary on "The NewsHour with Jim Lehrer." \*

**Drew S. Days III** is the Alfred M. Rankin Professor of Law at Yale University. He served as solicitor general of the United States and as assistant attorney general for civil rights.\*

**Karen DeYoung** is associate editor at *The Washington Post*.\*

**Jorge I. Domínguez** is Clarence Dillon Professor of International Relations, and director of the Weatherhead Center for International Affairs at Harvard University.\*

**Peggy Dulany** is founder and chair of the Synergos Institute.

**Maria Echaveste** was assistant to the president and deputy chief of staff in the Clinton White House.\*

**Maurice A. Ferré** served twelve years as mayor of Miami and was vice chairman of the Metropolitan Dade County Commission.\*

**Stanley Fischer** is president of Citigroup International. He was first deputy managing director of the International Monetary Fund, as well as head of the Department of Economics at MIT.

**Richard W. Fisher** is managing partner at Kissinger McLarty Associates. He served as deputy U.S. trade representative in the Clinton administration, and was managing partner of Value Partners Ltd. and Fisher Capital Management.\*

**Albert Fishlow** is a professor at Columbia University's Center for Brazilian Studies. He was professor at Yale University and at the University of California at Berkeley.\*

**William L. Friend** is treasurer and member of the Council of the National Academy of Engineering, and chairman of the University of California's Presidents Council on the National Laboratories. He retired from Bechtel Group Inc. as executive vice president and director.\*

**Jack Fuller** is president of Tribune Publishing Company.\*

**Bob Graham** (D-FL) is the senior senator from Florida. He served as governor of the State of Florida.

**Lee H. Hamilton** is director of the Woodrow Wilson International Center for Scholars in Washington, and the Center on Congress at Indiana University. He was a member of the U.S. Congress (D-IN) from 1965 until 1999, and chaired the House International Relations Committee.

**Antonia Hernández** is president and general counsel of the Mexican-American Legal Defense and Education Fund in Los Angeles.\*

**Carla A. Hills** served as U.S. Trade Representative in the Bush administration and as secretary of housing and urban development in the Ford administration. She is currently chair and CEO of Hills & Company, an international consulting firm.\*

**Alberto Ibarguén** is publisher of *The Miami Herald* and chairman of The Miami Herald Publishing Co. He founded the Puerto Rican Center for Justice.\*

**Jim Kolbe** (R-AZ) serves in the U.S. House of Representatives; he is chair of the Subcommittee on Foreign Operations and Export Financing.

**Sol M. Linowitz** was founding co-chairman of the Inter-American Dialogue. He is honorary chairman of the Academy of Educational Development. He has served as chairman of the Xerox Corporation, representative to the Middle East peace negotiations, ambassador to the Organization of American States, and co-negotiator of the Panama Canal Treaties.

**Abraham F. Lowenthal** is president of the Pacific Council on International Policy and professor of international relations at the University of Southern California. He was the founding director of the Inter-American Dialogue.\*

**Mónica Lozano** is president and chief operating officer of *La Opinión*, the largest Spanish-language daily newspaper in the United States.\*

**Doris Meissner** was commissioner of the U.S. Immigration and Naturalization Service (INS). She is senior fellow at the Migration Policy Institute.\*

**John McCarter** is the president and region executive of GE Power Systems Sales Europe; he was previously president and CEO of GE Latin America. McCarter formerly served on the editorial advisory board of Latin Trade magazine.\*

**Thomas F. McLarty III** was President Clinton's special envoy to Latin America and chief of staff. He is president of Kissinger McLarty Associates.\*

**Peter McPherson** is president of Michigan State University. He was deputy secretary of the U.S. Treasury and administrator of USAID.\*

**Martha T. Muse** is chairman of the board of The Tinker Foundation and served for many years as its president. She was the first woman to be elected to the board of trustees of Columbia University.\*

**Luis Nogales** is senior advisor to Deutsche Bank, DB Capital Partners Private Equity Group and president of Nogales Partners, an acquisition firm. He was president of UNIVISION and CEO of United Press International.\*

**John R. Petty** is chairman of TECSEC and Federal National Services. He was chairman and CEO of Marine Midland Bank, chairman of the Inter-American Development Bank High Level Review Committee, and assistant secretary for international affairs of the U.S. Treasury.\*

**John Porter** was elected to the House of Representatives in 1980 (R-IL) and retired at the end of the 106th Congress. He is now a partner in the Washington-based law firm, Hogan & Hartson.\*

**William K. Reilly** is founder, president and CEO of Aqua International Partners. He was administrator of the Environmental Protection Agency.\*

**Bill Richardson** is governor of New Mexico. He served as the U.S. secretary of energy and as U.S. ambassador to the United Nations.\*

**Brent Scowcroft** is president of the Forum for International Policy. He served as national security adviser to President Bush.\*

**Timothy Scully** is executive vice president of Notre Dame University.\*

**Donna Shalala** is the president of the University of Miami. She was the U.S. secretary of health and human services in the Clinton administration.

**Anne-Marie Slaughter** is dean of the Woodrow Wilson School of Public and International Affairs at Princeton University. She is also president of the American Society of International Law.\*

**Paula Stern** was chairwoman of the U.S. International Trade Commission. She is now president of The Stern Group Inc., a Washington-based international trade and economic consulting firm.\*

**Lawrence Summers** is president of Harvard University. He served as U.S. treasury secretary, after four years as deputy secretary and two years as under secretary for international affairs.

**Bob Taft** is governor of Ohio. He was secretary of state of Ohio and member of the Ohio House of Representatives.\*

**Kathleen Kennedy Townsend** was Maryland's first female lieutenant governor. She formerly served as deputy assistant attorney general in the U.S. Department of Justice.\*

**Viron Peter Vaky** was assistant secretary of state for inter-American affairs and ambassador to Costa Rica, Colombia, and Venezuela. He is a senior fellow at the Inter-American Dialogue.\*

\*Signers of the report





## INTER-AMERICAN DIALOGUE

1211 Connecticut Avenue, NW  
Suite 510  
Washington, DC 20036

Phone: 202.822.9002

Fax: 202-822-9553

E-mail: [iad@thedialogue.org](mailto:iad@thedialogue.org)

Web Site: [www.thedialogue.org](http://www.thedialogue.org)