

Inter-American Dialogue

LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Bernard Aronson
Managing Partner,
ACON Investments
LLC

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Board Member, Banco
del Estado de Chile

Joyce Chang
Global Head of
Emerging Markets
Research, J.P. Morgan
Chase & Co.

Adrian Cruz
Senior Partner,
ACPZ Venture Capital,
LLC

W. Bowman Cutter
Partner,
E.M. Warburg
Pincus

Dirk Donath
Managing Director,
Eton Park Capital
Management

Myles Frechette
Former US
Ambassador to
Colombia

Wallace Gardner
Vice President,
Worldwide Sales,
Chubb & Son

Michael Gavin
Head of Latin
America Econ.
Research, UBS

George W. Grayson
Professor of Govt.,
The College of
William & Mary

Peter Hakim
President,
Inter-American
Dialogue

Donna Hrinak
Co-chair, International
Trade, Competition,
and Government
Affairs Practice,
Squire, Sanders &
Dempsey L.L.P.

Jon Huenemann
Principal,
International
Department,
Miller & Chevalier

James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC

Paul Laudicina
Vice President,
A.T. Kearney

**Thomas F.
McLarty III**
President, Kissinger
McLarty Assoc.

Beatrice Rangel
President & CEO,
AMLA Consulting

José Antonio Ríos
International President,
Global Crossing

Everett Santos
CEO, Emerging
Markets
Partnership

Roger Scher
Head of Latin
American
Sovereign Ratings,
Fitch Ratings

Tony Smith
Partner,
Schmeltzer, Aptaker
& Shepard

Subscribers may pose questions to the Board of Advisors for the Featured Q&A by contacting the Editor at rsimpson@thedialogue.org

Featured Q&A With Our Board of Advisors

Q US Secretary of State Condoleezza Rice last week urged Haiti to speed up preparations for the country's planned November 20 presidential and legislative elections, the country's first since a nationwide revolt toppled the government of Jean-Bertrand Aristide in February 2004. Is Haiti ready to hold elections? Will they be free and fair? Will they create an atmosphere of legitimacy and respect for the rule of law, or will they only contribute to further polarization and violence?

A Board Comment: Diego Arria: "Another election is not going to bring about changes in the poorest nation of the Hemisphere. It is distressing to witness how the international community continues to live in denial in the case of Haiti—a failed state. To treat Haiti as a normal country in a transitional phase through electoral democracy is a farce at the expense of the poor Haitians. To dedicate so much time and resources to an empty election is tantamount to a hand cleansing by the international community, and especially by the US, whose interests will be more affected by the Haitian situation. If the international community were to acknowledge the reality of the Haitian tragedy, it would take the case of Haiti to the consideration of the Trusteeship Council of the UN (now integrated by the five permanent members of the Security Council). This Council was originally established 'to

ensure that adequate steps were taken to prepare territories for self-government.' Its last case was the territory of the Pacific Islands-Palau administered by the US. There is no doubt that Haiti is not prepared for self-government and that the holding of just another election—where few would vote—are not the 'adequate steps' required by its situation."

A Guest Comment: James Morrell: "The positives may outweigh the negatives. Unlike in 1997 and 2000, the ruling party isn't rigging the process. The electoral commission, *Continued on page 4*

PHOTO OF THE DAY



US Deputy Secretary of State Robert Zoellick on Tuesday threatened Nicaragua with sanctions if President Enrique Bolanos' term is cut short. See related story on page 2.

Photo: US government.

Inside This Issue

FEATURED Q&A: Is Haiti Ready to Hold Free and Fair Elections?.....1	Ecuador's Ex-President Gutierrez Receives Political Asylum in Colombia2
US Official Threatens Nicaragua with Sanctions if Bolanos' Term Cut Short.....2	Brazilian Government: Abbott Has Agreed to Lower Price of AIDS Drug3
Ecuadorean Military, Police Probing Existence of Secret Rebel Group2	The Dialogue Continues: What is the Best Way to Reform the IMF and World Bank?3

NEWS BRIEFS

Hurricane Stan Slams into Mexico

Hurricane Stan struck Mexico's Gulf coast on Tuesday, forcing Mexico to close its main oil exporting ports and evacuate oil workers. The storm came ashore 85 miles southeast of the city of Veracruz as a Category One hurricane with winds of nearly 80 mph, but has since been downgraded to a tropical storm.

Hurricane Stan-related rains have already caused the deaths of at least 65 people in Central America. El Salvador was the hardest hit with at least 49 deaths, while 8 people died in Guatemala.

Source: Reuters.

Peru's Toledo to Announce Cabinet Changes on Friday

Peruvian President Alejandro Toledo plans to announce changes to his cabinet on Friday, after several ministers submitted their resignations to run for office in general elections in April. "I'm evaluating my ministers, who wish with every legitimate right to take part in the congressional elections," Toledo said, without naming which ministers had submitted their resignations. Under Peruvian law, cabinet ministers must resign by Friday—six months before the elections—to be eligible to run.

Source: Bloomberg News.

Chavez: Venezuela to Sell Affordable Computers

Venezuelan President Hugo Chavez said Tuesday his government will manufacture computers that are affordable to all Venezuelans. Chavez said the so-called "Bolivarian computers," named in honor of 19th century South American independence hero Simon Bolivar, will sell for \$420 and \$465.

Source: The Miami Herald.

Political News

US Official Threatens Nicaragua with Sanctions if Bolanos' Term Cut Short

The United States will drop Nicaragua from a regional free trade pact and immediately suspend \$175 million in aid to Nicaragua if President Enrique Bolanos is prevented from completing his term, a top State Department official warned Tuesday, according to local daily *La Prensa*. During a visit to the Central American nation yesterday, Deputy Secretary of State Robert Zoellick, the number two official at the State Department and a former US Trade Representative, said Nicaragua would be left out of a free trade agreement between the US, five Central American countries, and the Dominican Republic, and that it would not receive funds from the US' Millennium Challenge Account, if Bolanos' term is interrupted. "We firmly support the legitimate democratic government in Nicaragua, with President Bolanos as the democratically elected leader," Zoellick was quoted as saying. Bolanos is trying to govern in the face of a hostile, opposition-dominated legislature, which has sought to curb his powers and threatened to impeach him. Zoellick yesterday condemned as "corrupt" an opposition pact between former Presidents Arnaldo Aleman and Daniel Ortega. Bolanos, Aleman's former vice president, has pursued corruption charges against his for-

mer boss, resulting in Aleman's arrest and imprisonment. Aleman, however, has been freed to move around Managua.

Ecuadorean Military, Police Probing Existence of Secret Rebel Group

Ecuador's military and police have put their respective intelligence agencies on alert for a secret rebel group reportedly involved in recent social protests, local daily *El Comercio* reported this morning. According to the newspaper, police commander Jose Vinuesa said Tuesday that police are investigating the possible existence of the Alfarista Liberation Army, or ELA, "and when there is sufficient evidence operations will be undertaken in accordance with the law." Vinuesa spoke a day after Jose Modesto Apolo, an advisor to President Alfredo Palacio, said secret revolutionary groups with links to armed rebels in Colombia had stirred up trouble during recent social protests in Ecuador. "From investigations, we know some infiltrated some of the protests," Apolo said. In April protests triggered the ousting of President Lucio Gutierrez, creating a wave of political and social instability that has lingered since the change in government. In August, protesters demanding a greater share of Ecuador's oil wealth sabotaged equipment belonging to state-owned **Petroecuador**, bringing production to a virtual halt for several days before a settlement was negotiated with foreign oil companies and the government. *El Comercio*

Ecuador's Ex-President Gutierrez Granted Political Asylum in Colombia

The Colombian government has granted political asylum to ex-Ecuadorean President Lucio Gutierrez, according to several media reports published yesterday.

Gutierrez, who was ousted by Ecuador's Congress in April after his dismissal of the Supreme Court provoked widespread protests, arrived in Colombia last month after spending time in the US and Peru.

The Colombian government granted asylum to Gutierrez on the condition that he make no political declarations.

Gutierrez has sparked fears of unrest in Ecuador by vowing to return to the Andean nation. Gutierrez's former foreign minister, Patricio Zuquilanda, who is also living in Colombia, said Tuesday that the ex-president would return to Ecuador "as soon as possible."



Gutierrez
Photo: UN.

first reported on the ELA on Sunday, saying it had 200 members and had links to two Marxist rebel armies in Colombia. Although it has not made any attacks, ELA has demonstrated its presence through "pamphlet bombs" in Quito, the capital, and economic hub Guayaquil to scatter propaganda calling for insurrection, according to *El Comercio*. "It is hard to assess how significant it is, whether this is really developing into a more serious problem than it's been," Michael Shifter, vice president for policy at the Inter-American Dialogue, told the *Advisor*. "But I think up until now it has been something quite minor and manageable."

Company News

Brazilian Government: Abbott Has Agreed to Lower Price of AIDS Drug

US pharmaceutical firm **Abbott Laboratories** has agreed to reduce the price of its AIDS treatment drug Kaletra by 46 percent in Brazil after the government threatened for a second time to manufacture the drug itself at a lower cost, Bloomberg News reported Tuesday. Abbott said it would cut the price per pill of Kaletra to 63 cents from \$1.17 starting in March 2006, Brazilian health ministry spokeswoman Ana Lucia Wenke said yesterday. An Abbott spokesperson told the *Advisor* that no agreement has been signed, and until then, the company has no comment. The government expects the agreement will save it \$339.5 million between 2006 and 2009, Wenke said. The government buys Kaletra from the Illinois-based Abbott and distributes it for free to as many as 163,000 AIDS victims in Brazil, which has more people infected with HIV than any Latin American country. The government had threatened to produce a generic version of Kaletra for just 68 cents a pill, saving about \$55 million a year. Abbott countered by arguing that Brazil already received the drug at the lowest price in the world outside of humanitarian programs in Africa, according to Reuters. The latest accord follows a prior agreement in which Abbott said it would sell the drug at \$0.99 per pill, which Brazilian Health Minister Jose Saraiva

The Dialogue Continues

A continuation of the October 3, 2005 Q&A

Q Finance ministers attending the annual meetings of the IMF and World Bank September 24-25 in Washington were reportedly divided over the long-term roles of the two multilateral institutions. What is the best way to reform these institutions to ensure their value and relevance? Should proposals to restructure the IMF's ownership structure include a more prominent role for Latin American countries?

A **Guest Comment: Raul Herrera:** "I think the IMF and World Bank have expanded their mission beyond their initial founding (so-called 'mission creep') and have overlapping functions in certain respects, and thus they should review their central mandate. For the IMF, its mission should be exchange rate surveillance and to assist countries in mitigating and recovering from financial crises. For example, has the Fund's voice been heard on the lack of flexibility in China's currency (and for which the US has been highly criticized for vocalizing opposition to such inflexibility)? For the World Bank, it should be conflict resolution and poverty alleviation, with a sharpened focus on attacking corruption and nepotism, and furthering transparency in transactions with its member countries. Indeed, heightened transparency and anti-corruption measures should be the cornerstone of the Bank's strategy with each member country, and Bank financing should be cut off when

the country fails on these fronts. The policy must be zero tolerance when public funds are involved. Developments in this regard at the US Congress may not be welcomed among member countries, but there is increasingly limited patience with multilateral development banks that do not crack down on corruption. I think the Fund's governance should be based on the concept of broad representation with meaningful values. That is, each member should be allocated votes accordingly to their particular weight *vis-a-vis* the global economy, and therefore this exercise of share reallocation is long overdue after celebrating the first 50 years of the Fund's establishment. In the event there was a meaningful reallocation of shares, certain Latin American countries would increase in shareholding and therefore influence, *i.e.*, Mexico, Brazil and Chile. A few countries in Asia would also increase in voting rights, while many countries in Europe would decrease (and rightfully so). Indeed, it would follow that the Bank's governance structure would also be reformed such that its 24-member board should be reduced to a more manageable size of 12 directors, including an integrated and consolidated Europe sharing one seat."

Raul Herrera is Head of the Latin American Practice Group at Winston & Strawn LLP.

Felipe refused to accept. A World Trade Organization agreement reached in 2003 allows countries facing a public health emergency to issue "compulsory licenses" to manufacture generic versions of patented drugs. Brazil has successfully forced drug companies to lower prices on

AIDS medicines several times in recent years by threatening to break their patents and produce copycat versions locally. The government is also in talks with **Merck and Co.** and **Gilead Sciences** to reduce prices on two other widely used antiretroviral drugs those companies produce.

Featured Q&A*Continued from page 1*

although inept, isn't preparing fraud. A kaleidoscope of presidential aspirants has grabbed the public's attention and increased prospects for a large turnout. Such a turnout, as in 1990 with Aristide's victory, can overcome many institutional problems. Under the Haitian Constitution, parliament has more power than the presidency. The parliamentary registration deadline caught the political parties flat-footed and no party, least of all Lavalas, could field enough candidates, with the result that Haiti will have a pluralistic parliament. The minuses begin, as always in Haiti, with security. Too many of the actors have guns: Lavalas and its offshoots, Danny Toussaint, Guy Philippe. The UN mission, having scattered ex-army remnants, contents itself with hit-and-run missions against Aristide gangs, but doesn't stay and clamp down. Kidnapping continues, even increases. The police engage in some of it themselves. Aristide's capabilities from his South African sanctuary remain a wild card. That he will work through his gangs is a given. That they can actually disrupt the election appears less certain. It will come down to the Haitians themselves. On May 21, 2000 they defied inauspicious circumstances with a 60 percent turnout. This time, displaying the same courage, but using the foreign assistance they lacked then, they can achieve the precious gift of legitimate government."

A **Guest Comment: Robert Fatton Jr.:** "Given the climate of insecurity, and the weak and divided electoral commission, it is hard to believe that an environment favorable for free and fair elections exists. With many areas of Haiti under the open or covert control of gangs and former military, patterns of systematic intimidation and fraudulent vote counting are to be expected. Even if logistical problems were to be resolved and the elections are held on November 20, it is not clear that the losers will accept the results. Post-electoral conflicts are thus likely. Moreover, even assuming that

things go well, that elections are held in a peaceful climate, and that losers accept their defeat, there is little to suggest that Haiti's systemic problems will be addressed. So far, the presidential candidates and the political parties have offered virtually nothing in terms of programmatic solutions to the predicaments of acute poverty, class divisions, economic stagnation, and ecological

“Even if logistical problems were to be resolved and the elections are held on November 20, it is not clear that the losers will accept the results.”

- Robert Fatton Jr.

degradation. Under these conditions, the electoral process will bring little change. Finally, the elections could generate another crisis of governability since there is a strong possibility that whoever becomes president will lack a parliamentary majority. If this happens, president and prime minister may well become embroiled in a major political conflict. Thus, while elections are a necessary condition for the democratic transition, they are not sufficient."

Diego Arria is a member of the Advisor board, Director of the Columbus Group, and a former Venezuelan Ambassador to the United Nations.

James Morrell is Executive Director of the Haiti Democracy Project.

Robert Fatton Jr. is a Professor of Government and Foreign Affairs at the University of Virginia.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2005

Erik Brand,
General Manager, Publishing

Robert Simpson,
Editor

Devin Finn,
Reporter

Danielle Jetton,
Computer Services Coordinator

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director of Special Projects

Dan Erikson,
Director for Caribbean Projects

Claudio Loser,
Senior Fellow

Judith Morrison,
Executive Director, Inter-Agency Consultation
on Race in Latin America

Marifeli Perez-Stable,
Vice President for Democratic Governance

Jeffrey M. Puryear,
Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at
freetrial@thedialogue.org

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

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