

ANDEAN DEVELOPMENT CORPORATION
IV ANNUAL CONFERENCE
TRADE AND INVESTMENT IN THE AMERICAS

Andean Development Corporation



Organization of American States



Inter-American Dialogue



September 2001

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Preface



OAS Secretary General César Gaviria, CAF President Enrique García, and Dialogue President Peter Hakim

This report presents the background papers and proceedings of the fourth annual Andean Development Corporation (CAF) Conference on Trade and Investment in the Americas. The conference—held on September 8th, 2000 in Washington—assembled some 140 top government officials, policy analysts, and business leaders from Latin America and the United States for an intense and productive discussion about the most important challenges confronting the future of the Andean region and the Western Hemisphere.

Like its three predecessors, last year's conference examined key regional trends in trade and investment and critical developments in Latin America's economies. We reviewed in considerable detail the situation of each of the five Andean countries. Special attention was given to the region's persistent problems of governance and economic performance. Discussions focused on the weakness of democratic institutions in Peru, the impact of dollarization in

Ecuador, the prospects for re-energizing development in Bolivia, Venezuela's uncertain politics, and Colombia's complex cycle of guerrilla war, drugs and economic hardship. The sessions highlighted the strong commitment of the Andean countries to market-oriented reforms and macroeconomic discipline, despite their economic, political and social setbacks.

The annual CAF conference is jointly sponsored by the Andean Development Corporation, the Organization of American States, and the Inter-American Dialogue. The aim of this sustained collaboration is to highlight the importance of U.S. economic and political relations with the Andean region, and to provide a detailed review of broader hemispheric economic affairs for Washington policy officials and opinion leaders. We are pleased that, year after year, the CAF meeting attracts leading analysts and key decision makers from the United States, Latin America, and elsewhere, and that the significance of our exchanges is now widely recognized.

Peter Hakim
President
Inter-American Dialogue

Acknowledgments

Many people contributed to the creation of this conference report. In particular, praise is due to the conference participants, who articulated their ideas with originality and coherence. We are also grateful to Joaquín Vial and Jeffrey Sachs of Harvard's Center for International Development for sharing their paper with us.

Anita Grabowski and Alvaro Herrero, formerly with the Inter-American Dialogue, served as rapporteur for the meeting. Rachel Menezes of the Inter-American Dialogue, with the help of Martín Hommes and Elva Gonzalez, provided critical support in producing this report, which captures the discussions admirably.



Former U.S. Trade Representative Carla Hills and CAF President Enrique García

Ana Mercedes Botero and Carlos Zannier of the Andean Development Corporation (CAF) and Kelly Alderson formerly with the Inter-American Dialogue deserve special mention for their contributions to the design and implementation of the conference. ■



Ana Julia Jatar of the Dialogue and José Miguel Vivanco of Human Rights Watch—Americas



Joyce Chang of J.P. Morgan Chase and Michael Shifter of the Dialogue



Former Minister of Government Genaro Arriagada of Chile and former presidential candidate Lourdes Flores Nano of Peru

Conference Agenda

**Andean Development Corporation
IV Annual Conference on
Trade and Investment in the Americas**

**Andean Development Corporation
Organization of American States
Inter-American Dialogue**

Friday, September 8, 2000 • Carnegie Endowment for International Peace • Washington, D.C.

| | | |
|------------------|--|--|
| 8:30–9:00 a.m. | Welcome | César Gaviria, Organization of American States Enrique García, Andean Development Corporation |
| 9:00–10:00 a.m. | <i>Politics, Security, and U.S. Policy in the Andean Region</i> | |
| | Speakers: | Peter Romero, U.S. Department of State Genaro Arriagada, former Minister of Government, Chile |
| | Moderator: | Luigi Einaudi, Organization of American States |
| 10:00–12:00 p.m. | <i>Economic Progress in Latin America and the Andean Region</i> | |
| | Speakers: | Ricardo Hausmann, Harvard University Roberto Teixeira da Costa, Banco Sul América, Brazil Joyce Chang, Chase Securities Joaquín Vial, Harvard University |
| | Moderator: | David Rothkopf, Intellibridge Corporation |
| 12:00–1:00 p.m. | <i>Colombia: Prospects for Peace and Recovery</i> | |
| | Speakers: | Fernando Cepeda Ulloa, Universidad de los Andes Eduardo Pizarro, University of Notre Dame Rudolph Hommes, Violy, Byorum & Partners |
| | Moderator: | Michael Shifter, Inter-American Dialogue |
| 1:00–2:00 p.m. | <i>Bolivia: Sustaining Stability (Lunch)</i> | |
| | Speaker: | Eduardo Lora, Inter-American Development Bank |

- 2:00–3:00 p.m. ***Venezuela: After the Elections, The Tasks Ahead***
 Speakers: Ramón Piñango, Instituto de Estudios Superiores de Administración, Venezuela
 Pablo Bréard, ScotiaBank Group, Canada
 Ana María San Juan, Universidad Central de Venezuela
 Moderator: Peter Boehm, Permanent Mission of Canada to the OAS
- 3:00–4:00 p.m. ***Peru: Time for Reconciliation***
 Speakers: Carlos Boloña, Finance Minister, Peru
 Lourdes Flores Nano, former Congresswoman, Peru
 Francisco Tudela, Vice President of Peru
 Moderator: Ricardo Luna, Princeton University
- 4:00–5:00 p.m. ***Ecuador: Renewed Hope?***
 Speakers: Augusto de la Torre, World Bank
 Roberto Baquerizo, Pro Ventures
 Moderator: Peter Hakim, Inter-American Dialogue
- 5:00–6:30 p.m. ***South America Integration and Hemispheric Free Trade***
 Speakers: Carla Hills, Hills & Company
 Guido di Tella, Former Minister of Foreign Relations, Argentina
 Enrique García, Andean Development Corporation
 Sebastián Alegrètt, Comunidad Andina
 Moderator: Rubens Barbosa, Brazilian ambassador to the United States
- 7:00 p.m. ***Dinner on the occasion of the Thirtieth Anniversary of the Andean Development Corporation (CAF) at the Inter-American Development Bank***
 Hosts: Enrique V. Iglesias, Inter-American Development Bank
 Peter Hakim, Inter-American Dialogue
 Keynote Speaker: Thomas Pickering, U.S. Department of State

Rapporteur's Report on the Andean Development Corporation IV Annual Conference on Trade and Investment in the Americas

*Friday, September 8, 2000
Carnegie Endowment for International Peace
Washington, DC*

Opening Remarks

OAS Secretary General **César Gaviria** opened the IV Annual CAF Conference on Trade and Investment in the Americas by remarking that over the years, the CAF conferences have exposed the policy and business communities of the Western Hemisphere to important and timely topics in Latin American affairs. These include the perils of international financial crises, of limited definitions of democracy, and of old and new threats to democratic consolidation such as drug trafficking, terrorism, impunity, crime, corruption, and institutional weaknesses in the judiciary and in the rule of law. For President Gaviria, the timing of this year's conference was of particular importance. Latin America is today at a crossroads. Economically, the region is doing better than predicted in 1999. But many challenges still remain. The first challenge is to learn how to deal with external vulnerabilities. This will require countries to reduce their dependency on commodity exports and to sustain the reforms that have helped the region weather the financial storms associated with globalization. The second test is to put an end to Latin America's inability to achieve and sustain high growth rates. To achieve this, President Gaviria called on the region to build upon its strengths, which include the commitment to follow macroeconomic

discipline and market-oriented policies and to pursue economic integration through trade. The third challenge is to address the high levels of poverty and inequality that can undermine popular support for economic reforms and democracy. The fourth and final challenge is to confront political and democratic weaknesses, which have become much more serious in the past few years especially in the Andean region. For President Gaviria, meeting these four challenges will require countries not only to maintain, deepen, and broaden current economic reforms, but also to make the next generation of reforms more pro-growth and more pro-poor. Special attention should be given to safety nets, governance, and institutional development. Above all, concluded President Gaviria, Latin Americans must keep vigilant and be prepared to act with strength and resolve when democratic insti-



**OAS Secretary General César Gaviria
and CAF President Enrique García**

“ Even in the face of crisis, Latin American countries have not abandoned their commitment to macroeconomic discipline and market-oriented reforms. ”

(*Enrique García*)

tutions are threatened, making use of the valuable instruments for collective action that have been developed in the inter-American system.

CAF President **Enrique García** followed with comments on the main challenges facing the Andean economies and Latin America more broadly. For Mr. García, the Andean region's most important challenge in the near future is to change its pattern of growth, from one that is based on natural resources to one that is sustained by knowledge and innovation. This transformation would allow for the region's effective integration into the international economy and its successful participation in the process of globalization. It would also lay the groundwork for more sustained growth, the kind that creates jobs and increases equity. But in order to achieve sustained levels of growth, the Andean countries will have to become more competitive, and this means more investment in education, technological development, infrastructure, and institutional strengthening. Turning to Latin America as a whole, Mr. García pondered the financial and economic difficulties faced by the region in 1999 and early 2000. Despite these difficulties, he remarked that Latin America has been showing signs of economic progress and maturity. A number of countries are set to enjoy positive growth rates in 2000.

More importantly, even in the face of crisis and in some cases recession, Latin American countries have not abandoned their commitment to macroeconomic discipline and market-oriented reforms. Mr. García concluded with some notes on hemispheric integration, commenting on the benefits to the region of a



Vice President Francisco Tudela of Peru and Peter Hakim of the Dialogue

Free Trade Area of the Americas (FTAA). He also stressed the benefits of closer relations among the region's smaller trade agreements, including Mercosur and the Andean Pact, which are negotiating a possible convergence. According to Mr. García, the convergence of sub-regional trade blocs and the implementation of regional schemes for infrastructure integration and technological developments as put forth by the South America Summit represent a significant advancement in the path towards a more effective and equitable FTAA.

Session 1

Politics, Security and U.S. Policy in the Andean Region

Assistant Secretary of State for Inter-American Affairs **Peter Romero** explained that the key issues shaping U.S. policy toward the Andean region are the promotion of democracy and democratic institutions, of human rights, and of trade and economic development. For Ambassador Romero, perhaps the most important challenge facing the Andean region is addressing the problems of rising popular expectations and the sense of exclusion that seem to prevail in Andean societies. There are also some important political problems to be addressed. In Peru, institutional and



Ricardo Hausmann of Harvard, Bernard Aronson of Acon Investments and former Foreign Minister Guido di Tella of Argentina



Michael Shifter of the Dialogue, former Finance Minister Rudolph Hommes of Colombia, and Princeton Professor Eduardo Pizarro

political reforms are urgently needed. The chief challenge for the Peruvian government in 2000 is to reform the electoral process in order to ensure free and fair elections in the future. In Venezuela, there are plenty of uncertainties about President Hugo Chavez's rhetoric and what the future holds for the country. According to Ambassador Romero, the United States would like to see President Chavez—who holds overwhelming majorities in both the national legislature and among state governors—take steps to fulfill his campaign promises, which include more equitable growth and political participation. Ecuador also faces some tough political and economic challenges. The muddled political scenario in the country is worrisome and there are some difficult and painful economic reforms on the country's agenda. The government is counting on the International Monetary Fund, which reinforced its commitment to stand by the agreement to lend US\$2 billion dollars to the country over the next three years. Turning to Colombia, Ambassador Romero remarked that the administration of President Andrés Pastrana represents a window of opportunity to turn the current situation around. Specifically, *Plan Colombia* deserves U.S. support because it brings all challenges—economic, social, and security—under an umbrella plan. It confronts all interrelated problems at once rather than by piecemeal policies. Ambassador Romero pointed out that the United States is committed to avoiding a

spillover into neighboring countries of the war against narco-trafficking in Colombia, which is an issue of grave concern to Andean nations. On a more positive note, he talked about the political progress being made in Bolivia, the former 'sick man' in the region. In that country, politics of inclusion have helped unite government officials around a core set of values, including the elimination of coca production. That has allowed for the continuity of policies despite changes in the administration. As a result, foreign investment is up and coca production is down. Summing up, Ambassador Romero said that Americans will continue to support democracy and democratic institutions in the Andean region and in Latin America more widely.

“*Plan Colombia* deserves U.S. support because it brings all challenges—economic, social, and security—under an umbrella plan.”

(Peter Romero)



Assistant Secretary of State Peter Romero and Princeton Professor Ricardo Luna

“ Among the Andean countries’ chief challenges are addressing institutional weaknesses and political fragmentation. ”

(Genaro Arriagada)

More importantly, U.S. efforts will seek to promote active participation of the private sector and non-government organizations in reforms—in recognition of their important role in bringing about political stability and economic growth.

Former Chilean Ambassador to the United States **Genaro Arriagada** advised against the temptation to approach the Andean problems through a single lens. He criticized the international community for focusing attention exclusively on the region’s drug troubles. These are serious but are by no means the only or main problem. Among the Andean countries’ chief challenges, he remarked, are addressing institutional weaknesses and political fragmentation. In each country, the set of problems seems to be distinct. Ecuador, for example, struggles with the very damaging fragmentation of its party system. Data has shown that at any given time, there are no fewer than ten political parties in the national Congress. The country is also lacking political discipline. Presidents, looking for support, usually start a game of illegitimate political intimidation. Public bureaucracy is also debilitated. To restore political stability, Ecuador must rely on its civil society, which is the essence of democracy. Colombia, on the other hand, faces three

pressing challenges: a peace process, economic recession, and a weak state. On the peace process, Ambassador Arriagada was critical of certain aspects of President Pastrana’s *Plan Colombia*. Specifically, he mentioned that the plan was put together in a hurry because of U.S. pressures and to agree with the U.S. congressional calendar. The rushed approach did not allow for the necessary coordination between Colombia and its regional neighbors. Now, President Pastrana is reaching out to his neighbors for support. Fortunately, the region’s response has been positive. Even though *Plan Colombia* was not specifically mentioned in the Communiqué that emerged from the South America Summit, Ambassador Arriagada felt that support for President Pastrana’s peace efforts was implicitly articulated throughout the document. He lamented Colombia’s present economic troubles but expressed hope for the future, remembering that Colombia had a long history of economic stability and growth. After all, the country stood strong throughout the 1980s, when most Latin American economies went bankrupt. Ambassador Arriagada was most worried about Colombia’s weakened state. He characterized party politics in the country as chaotic. These kinds of political problems, he concluded, represent the most urgent challenge for the Andean region. Time has come to push for institutional reforms and the implementation of mechanisms that will help solve these debilitating evils.



IDB economist Eduardo Lora, Finance Minister Carlos Boloña of Peru, and CAF President Enrique García

Session 2

Economic Progress in Latin America and the Andean Region

Moderator **David Rothkopf**, president of Intellibrige Corporation, opened the session by laying out a number of questions to guide the discussions: (a) Where are Latin America’s economies heading? (b) What are the political and social concerns today in the region? (c) What is the interplay between politics and economics? (d) What are the consequences to Latin America of

difficulties between Brazil and Argentina and of troubles in the Andean region? (e) Finally, what is the economic toolbox most appropriate for Latin America?

CAF economist **Joaquín Vial** opened by noting that only now are Latin Americans starting to understand how strongly politics and economics affect each other. He noted that the region ended 1999 with widespread recession, which caused relative political turmoil in some countries and a change in the political debate in others. Short recessions like this one, Mr. Vial explained, used to not bring about significant political consequences. That we see these consequences now tells us of an important change in Latin America's mindset. They mark the end of what Mr. Vial called a simplistic period of illusions that started in the early 1990s, when many Latin Americans thought their standards of living would be greatly improved if they followed a very broad economic policy package—the so-called Washington Consensus. For the sake of stabilization and improved efficiency, countries in the region opened up their economies, liberalized markets, reformed the financial sector, and increased competition. Substantial political capital was invested in these reforms and by the end of the 1990s, everyone in the region was expecting the reform package to deliver. Instead, explained Mr. Vial, they discovered that Latin America was in crisis; and this time, it was a different kind of crisis. Unlike in the past, the region found itself vulnerable not to terms of trade or drops in commodity prices, but to portfolio changes in international markets. It became clear that a new set of problems was confronting the region, which the economic recipe adopted in the 1990s had overlooked. Now that Latin America is looking for ways to expand the Washington Consensus, governments must try to avoid the temptation of using magic remedies like dollarization to solve economic problems. According to Mr. Vial, it is time to stop trying to bring prosperity without sacrifice to the region. Turning to the Andean countries, he explained that

economies are poorly positioned to compete effectively and successfully in the international market. Their infrastructure and institutions—geared to produce goods and commodities for less dynamic world markets—leave them with very little growth opportunities. But some positive signs are emerging. First, the quality of financial policy in a number of Andean countries has improved considerably in the past few years. Second, economies have opened up significantly in just a short period of time. The region that basically invented import substitution now has an average trade tariff of 5 percent. For Mr. Vial, these positive changes are all the more remarkable when considering that they were implemented by democratic regimes under adverse social and institutional conditions. Nonetheless, these are still short-term measures. To improve competitiveness in the long run, concluded Mr. Vial, the Andean countries must reform their political and education systems.

For **Joyce Chang**, managing director of international fixed income at Chase Securities, this is a good time to invest in Latin America despite the challenges posed by an unstable Andean region. She predicted that Ecuador, Venezuela, Mexico, and Brazil would be Latin America's top growth performers in 2000. Investors' mood towards Latin America has been very optimistic compared to recent years, and they are paying a 150-point premium to invest in the region. The global trends of lower inflation and stronger growth have trickled down to Latin America; and the region's average fiscal deficit is forecasted to come down to 2.6 percent of GDP—lower than Asia's. The exception to this rosy forecast, she added, is the Andean region. Investor's perception of the Andean countries today is worse than it has been in decades. The concern on Wall Street goes beyond macroeconomic problems and includes political uncertainties and institutional weaknesses. In Venezuela and Peru, for example, investors are worried about the highly concentrated powers of the executive branch. In Colombia and Ecuador, the

“ By the end of the 1990s, everyone in the region was expecting the reform package to deliver. Instead they discovered that Latin America was in crisis. ”

(Joaquín Vial)

“...commodity prices and not institutional changes are the key drivers behind investors’ decisions in the Andean region. Institutional changes take too long.”
(Joyce Chang)

concern is focused on the lack of congressional support for the executive. To invest in the Andean region, explained Ms. Chang, one needs to move around relative values. She advised investors not to under-rate Venezuela, especially with oil at a 10-year high and the country enjoying low debt levels. Colombia’s medium-term economic measures seem quite uncertain. But the country is benefiting from higher-than-expected commodity prices and is set to enter into an agreement with the Inter-American Development Bank on future loans. Ecuador’s economy is currently being supported by a number of positive developments, including a successful debt swap, multilateral support, soaring oil prices, improved tax collection, and lower inflation. But the country’s hasty politics is still a problem. The legislative majority has recently mounted strong opposition to the government’s reform plans, prompting the government to call a referendum to bypass congress. With regards to Peru, she expressed concern over a weak credit market and President Alberto Fujimori’s latest populist shift. Overall, she concluded, it is important to note that commodity prices and not institutional changes are the key drivers behind investors’ decisions in the Andean region. Institutional changes, she explained, takes too long.



U.S. Under Secretary of State Thomas Pickering, IDB President Enrique Iglesias and CAF President Enrique García

Roberto Teixeira da Costa, vice chairman of Brazil’s Banco Sul América, focused his remarks on the Brazilian economy. He noted that despite the country’s persistent economic, political and social problems, the Brazilian economy is doing well and will continue to be the leader in Latin America for quite some time. The question is whether Brazil can sustain high growth rates. For Mr. Teixeira da Costa, the increased openness of the country’s economy is an encouraging sign. It has helped increase productivity, improve competitiveness, and lower inflation. In addition, the floating of the exchange rate in 1999 had positive effects on interest rates, helping increase investments and public savings. Despite a worse than expected performance in the last decade, Mr. Teixeira da Costa believes that the Brazilian economy is entering the new millennium on the right track. The country’s recovery from the 1999 currency devaluation has been stronger than anticipated and the economy is set to grow more than 4 percent in 2000. Among the sectors to benefit from recovery are telecommunications, transportation, construction, and services. But Mr. Teixeira da Costa warned that in order to achieve sustained economic growth, the country must implement a series of difficult reforms in areas like taxation, corporate law, social security, and political institutions. Public debt is also a concern, as is privatization, which has lost some of its momentum. Abroad, Brazil faces anti-dumping actions from Canada and the United States. Most importantly, Argentina’s deep recession and the ever-growing commercial disputes between the two neighbors are putting Mercosur at risk. Turning to politics, he called on Brazilians to de-dramatize the 2002 presidential elections. The pre-candidates may not possess the same credentials as current President Fernando Henrique Cardoso, explained Mr. Teixeira da Costa, but there is little chance that the winner will jeopardize the economic and political accomplishments of the past decade. Whatever may be Brazil’s troubles today, he concluded, one must not forget that the

country has come a long way from its troubled economic and political past.

Ricardo Hausmann, of Harvard University's JFK School of Government, noted that Latin America has become more prepared to react to economic and financial crises. But the region's economies still lack momentum; and growth remains unsteady. He blamed this on poor financial integration, lack of savings, weak institutions, and increased crime and violence. In 1996, Mr. Hausmann explained, most observers were predicting paradise in Latin America. Reality, however, turned out to be quite different. In 1998 to 1999, the region was hit with a slow-moving crisis coming from Asia and then Russia. Today, Latin America is recovering well and we are enjoying happier times. But why does the region experience so much economic trouble? Why do we assume that higher growth levels are always unsustainable? According to the former IDB chief economist, unstable short-term growth is the result of lousy financial integration at the international level and the pro-cyclical nature of the international financial system. In Venezuela for example, when oil prices are high and the economy can sustain itself, the international community invests. Conversely, when oil prices are low and the country cannot sustain itself, investors pull their money out, adding to the recession. He attributed the pro-cyclicity of the international system to the lack of a global governance regime and the fact that most Latin American countries, especially in the Andean region, internationalize their savings. To explain the lack of economic momentum in Latin America, he pointed to social and institutional problems such as the poor quality and distribution of education, rise in crime and violence, absence of the rule of law and property rights, and a cumbersome and outdated labor structure. These problems according to Mr. Hausmann are serious obstacles to market growth. Turning to the Andean region, he praised Ecuador's decision to dollarize the economy. He acknowledged that dollarization leaves little room for monetary policy



Brazilian Ambassador Rubens Barbosa and U.S. Special Envoy to the Americas Buddy MacKay

but recognized that the dollar has brought back much needed stabilization to the economy, which is doing better than expected. For Mr. Hausmann, there are many opportunities for growth in Latin America. It is up to the countries to learn how to take advantage of them.

Session 3

Colombia: Prospects for Peace and Recovery

Panel chair **Michael Shifter**, vice president at the Inter-American Dialogue, opened by noting that Colombia has become an important focus of attention in the Western Hemisphere. President Clinton paid a visit to the country recently, and Colombia was the focus of talks at the South America Summit in Brasilia, Brazil.

Fernando Cepeda Ulloa of the Universidad de los Andes focused his remarks on *Plan Colombia*, which he characterized as Colombia's cry for help to the international community. He explained that the anti-establishment forces in Colombia, including guerrillas and organized crime, have gained significant strength in recent years. At the same time, the establishment, which includes politicians, institutions, unions, the press, and universities, has become considerably weak. The result, he

“Unstable short-term growth is the result of lousy financial integration at the international level and the pro-cyclical nature of the international financial system.”

(Ricardo Hausmann)

““ The level of violence is such in Colombia that it has given way to the creation of a new term, “Colombianization.” ””

(Eduardo Pizarro)

said, is a weak state unable to confront the multiple crises it is facing—and having to turn to the international community for help. The greatest challenge for the Colombian state today is to recognize and confront the alliances between the drug traffickers and the guerrillas, and between the paramilitaries and the drug traffickers. According to Mr. Cepeda, the driving force behind these perverse alliances is a mixture of “avarice and criticism.” There is avarice on the part of the anti-establishment to accumulate money, diamonds, oil, and drugs. But there is also criticism of the establishment for their inability to deal effectively with the country’s persistent socioeconomic problems. Turning to the U.S. role in *Plan Colombia*, Mr. Cepeda explained that Latin American countries have interpreted American aid in different ways. Some countries see U.S. participation as a militarization of the war against drugs in Colombia. As such, the aid will be of little help. Worse, it will risk turning the conflict into another Vietnam. On the other hand, many countries see that the helicopters and military reinforcements are simply meant to increase the Colombian government’s leverage and coerce the FARC (guerrilla) into joining serious negotiations. On the bright side, Mr. Cepeda explained, there are many opportunities for changes in Colombia. The country has never enjoyed so much international support. Also, the protection of human rights seems viable, and there have been successful attacks against the powerful paramilitary forces. What is needed, concluded Mr. Cepeda, is more effectiveness on the part of the government to translate these great opportunities into results.

Eduardo Pizarro, visiting scholar at Notre Dame University, discussed Colombia’s increased level of violence and its impact on society and institutions. According to Mr. Pizarro, the level of violence is such in Colombia that it has given way to the creation of a new term, “Colombianization.” He explained that the term is used to refer to nations plagued by many different forms of violence, that tend

to reinforce each other, and give rise to grave social and institutional problems, including the diminished capacity of the state. Mr. Pizarro explained that Colombia is far from seeing a total collapse of the state. But he added that the institutional erosion resulting from violence is leaving the state increasingly vulnerable. Similarly, the country is not yet experiencing a civil war. But if violence continues, Colombian society will fall to pieces. Colombia’s internal tragedy has also increased its external vulnerability. For Mr. Pizarro, the success of *Plan Colombia* may be the way out of this cycle of violence. The plan could help accomplish the difficult tasks of reconstructing the state and improving the quality of life in Colombia. There have already been some encouraging positive developments, including the decrease in the number of homicides. But for the plan to work, concluded Mr. Pizarro, Colombia needs the support of other Latin America countries.

Rudolph Hommes, partner at Violy, Byorum, focused his comments on Colombia’s economic performance. He pointed out that the country’s economic indicators have improved in recent months, led by growth in exports and the slow recovery of internal demand. Now Colombia needs to see a growth in investments. Currently, a lack of confidence in the government coupled with widespread insecurity has driven foreign investments away from the country. As a result, today’s investment levels are insufficient to support the kind of growth Colombia is hoping to achieve. One solution would be to fill the void with public investment. But that would increase public debt, with negative impact on the country’s fiscal standing. For Mr. Hommes, Colombia is also plagued by an inability to deal effectively with financial crises and by severe inequalities of wealth and income. The root of these problems, according to Mr. Hommes, can be found in Colombia’s weak political institutions. The government is ineffective and there is a serious lack of political leadership. Reforms in the social security system, for example, are being held back because of political squab-

bles. There is no political desire to decrease public spending; and the poor and unemployed remain with very little protection to endure the frequent economic crises. The institutions in Colombia, especially the political parties, are either in crisis or facing deterioration. At the same time, guerilla groups and paramilitaries are gaining strength, and in certain parts of Colombia, they are already stronger than the local government. The current political leadership has been in power for 12 years, despite its inability to deal effectively with the country's challenges. According to Mr. Hommes, it is time to start addressing these institutional problems more seriously. Turning to the drug war, he lamented that it will be difficult for Colombia's weak armed forces to resolve the situation. According to Mr. Hommes, Colombia's military has always been weak, mostly as a result of past policies encouraged by Colombia's National Front Party (*Frente Nacional*). He expressed support for *Plan Colombia's* military component saying that military support will increase the government's power to dissuade violence. On the other hand, the plan's drug eradication proposal is damaging to poor farmers, who will pay a high price in the end by being left without coca farms or a way to sustain their family. But overall, Mr. Hommes concluded, *Plan Colombia* is a positive development. It creates an external reference from which the country can learn and reform.

Session 4

Bolivia: Sustaining Stability

According to IDB economist **Eduardo Lora**, Bolivia is the Andean region's most puzzling case. Throughout the 1990s, Bolivia vigorously embraced sound macroeconomic reforms. Inflation remained in the single digits, the financial sector and the tax system were reformed, external tariffs were lowered, and several state-owned companies were privatized. The country also did well in education, with indicators now above Latin America's average. Yet,

the result in terms of economic growth has been disappointing. For Mr. Lora, the reason lies in three factors: demography, geography, and institutions. Regarding demography, he explained that Bolivia is a young country, and as such, it has considerable needs, especially regarding education and health. At the same time, it has very little capacity to generate resources because a large part of the population is not yet economically productive. But in the next two decades, Bolivia will have a large working-age population, and this will create windows of opportunities to improve growth, savings and education—that is, if good policies are in place to translate these opportunities into better economic and social outcomes. In terms of geography, Mr. Lora explained that access to the world's main markets is crucial for economic development, and access to the sea is particularly important since overland transport costs are much higher than sea shipping, especially for poor countries that lack infrastructure. In this sense, landlocked Bolivia is really at a disadvantage. Turning to institutions, Mr. Lora remarked that Bolivia is not doing well in areas such as rule of law, corruption controls, and government effectiveness in terms of public services, transparency and regulations. The worst problem seems to be rampant corruption especially in the public sector. According to Mr. Lora, to deal effectively with these institutional challenges, Bolivia needs to address three main problems. First, it must deal with issues of political representation and diversification, incorporating different groups and interests into the political process. It also needs to restore control of public services to avoid corruption, establishing a regulatory process that measures true representation of the public's interest. Finally, it must address issues of political gridlock, building mechanisms into the system to facilitate agreement between the different groups involved in the country's decision-making process. Summing up, Mr. Lora pointed out that fifty percent of the difference in income with developed countries is explained by institutions, twenty-four percent by geogra-

“ Throughout the 1990s, Bolivia vigorously embraced sound macroeconomic reforms. Yet, the result in terms of growth has been disappointing. ”

(Eduardo Lora)



Former Foreign Minister Guido di Tella of Argentina and U.S. Under Secretary of State Thomas Pickering

phy and twenty-five percent by demography. Clearly, Bolivia must learn how to better cope with these challenges if it wants to achieve sustained growth and development in the near future.

Session 5

Venezuela: After the Elections, The Tasks Ahead

Moderator **Peter Boehm**, Canadian ambassador to the OAS, set the tone for discussions by laying out some of the tasks ahead for President Hugo Chávez after his victorious legislative and state elections. These include carrying out political and constitutional reforms; reversing economic setbacks such as high levels of inflation, unemployment, and slowing consumer demand; dealing with high urbanization rates; and coping with recent natural disasters.

Ana María San Juan of Universidad Central de Venezuela remarked that since the 1980s, Venezuela has undergone several changes, mostly for the better. But many problems still remain, especially political and institutional. For Ms. San Juan, President Chávez's recent move to draft a new constitution is an encouraging development; it is an institutional change that is

in accordance with social demands. But the new document, she added, should guarantee the independence and efficacy of the country's institutions and secure the rights of all citizens. She remarked that Venezuela needs a more inclusive democracy and it needs to increase the diversity of political representation. At present, politics at the critical level excludes several sectors of society. In addition, Ms. San Juan pointed out that it is important for the Venezuelan government to monitor the implementation of laws and regulations in order to secure full compliance. Turning to the economy, Ms. San Juan emphasized the need to deal more effectively with the oil industry, which she believes is leaving the rest of the country vulnerable. She proposed that at times of high oil prices, the administration use the revenues to achieve productive growth and create conditions for increasing levels of savings. Economic opening is also crucial, because it facilitates the adoption of new technologies and helps improve overall efficiency. Picking up on Eduardo Lora's discussion of human geography, Ms. San Juan pointed out that Venezuela faces a great challenge in its current rate of urbanization, which is one of the highest in Latin America. The country's population, and that of the capital Caracas, has increased threefold in the last decade, imposing an additional burden on Venezuela's feeble institutions.

Pablo Bréard of Canada's ScotiaBank Group analyzed the state of the Venezuelan economy. He explained that Venezuela has fared well in recent months in spite of economic recession, high inflation, disruptive political events, and hazy policy direction. This positive performance is largely due to the oil market. Mr. Bréard pointed out that the energy sector deserves focused attention because it is the dominant force behind economic changes in Venezuela. The energy sector is behind the country's integration into the world economy and its privileged link with the U.S. economy. But according to Mr. Bréard, dependency on oil for a pos-

“**The Venezuelan economy has fared well in recent months in spite of higher inflation, disruptive political events, and hazy policy direction.**”

(Pablo Bréard)

itive market evaluation is not always a good thing. The dependency on the energy sector has left the rest of the economy vulnerable to structural deficiencies. The solution is the development of a non-oil economy, which according to Mr. Bréard will require a steady improvement of the economy as a whole. Venezuela needs to improve domestic savings and embrace regional integration. He pointed out that like most Latin American countries Venezuela has failed to boost current levels of savings. To reverse this, the reform in social security should target the development of a domestic capital market. Similarly, financial sector reform should target the development of a sound financial architecture to retain and channel savings into productivity-enhancing investments.

Ramón Piñango, of the Instituto de Estudios Superiores de Administración de Venezuela, insisted on the need to strengthen and diversify Venezuela's institutions as a way to promote growth and fortify democracy. Despite discouraging recent developments, Mr. Piñango believes that the foundations are being laid for the construction of a better Venezuela in the future. He explained that in the 1960s, Venezuelans were full of hope and projects for the future. The emotional initiative, however, was lost in the 1980s and 1990s, partly due to the failure of the government and of the country's institutions to deal effectively with severe economic, social and political problems. The first step toward regaining that momentum, explained Mr. Piñango, is for Venezuelans' to stop blaming the country's evils on the president. There are a lot of challenges to be met. In the short-run, attention should be focused on improving personal security, which has worsened significantly in the past few years, and reducing the country's income inequality. If the gap between rich and poor remains unchanged or increases, concluded Mr. Piñango, the country's economy will suffer and democracy will be severely compromised.

Session 6

Peru: Time for Reconciliation

Peruvian Finance Minister **Carlos Boloña** started off discussions by laying out the economic emergency program and the complementary reforms that he is orchestrating to revive Peru's economy. Minister Boloña explained that the goals of the plan are to restore fiscal equilibrium, decrease government spending, restructure the private sector, restructure debt, reinvigorate privatization projects, and reduce labor costs. The reforms will focus on the agricultural sector, tax system, housing policy, education, and health. In the financial sector, the emphasis will be on increasing competitiveness of the banking sector and reducing interest rates. But Minister Boloña explained that economic reform alone will not be enough. Institutional reform must go hand in hand with efforts to stabilize the economy. He called for institutional decentralization and for reforms in Peru's judicial system. Minister Boloña hopes that as a result of the economic reforms, Peru will enjoy a 6 percent growth rate this year, inflation will decrease, and investment levels will grow. The plan will also lay the foundation of a more efficient poverty alleviation strategy. For Minister Boloña, the solution to poverty alleviation is not increased spending, but a more efficient allocation of government resources. Today Peru spends close to \$1 billion a year fighting poverty (about 1.5 percent of GDP). This is more than 100 times the budget in 1991. But it has yielded very little results. Despite overall improvements in Peru's extreme poverty indicators, poverty numbers have not changed in the recent past. One of the reasons is unstable employment, which keeps moving people in and out of poverty. Recession has only made the situation worse. For Minister Boloña, an effective poverty alleviation strategy should therefore be focused on increasing spending efficiency and improving the lot of the poor

“ Today Peru spends close to \$1 billion a year fighting poverty: more than 100 times the budget in 1991. But it has yielded very little results. ”

(Carlos Boloña)

“ If Peruvians
don't learn to
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lessons of the past,
the country will continue
on a destabilizing cycle,
rooted in history. ”

(Francisco Tudela)

through job creation. In this sense, the economic emergency plan and reforms are a step in the right direction. They will bring about economic stability, increased investment, and growth in the export sector, which will translate into more jobs.

Lourdes Flores Nano, vice president of the Christian Democratic Organization in the Andean region, called President Fujimori's reelection undemocratic and illegitimate. For the former congresswoman nothing has changed in Peru. The political dialogue is still moving at an alarmingly slow pace, with little trust among the opposing sides, and rampant corruption plaguing the country's institutions. Ms. Flores Nano believes that President Fujimori's strongman Vladimir Montesinos has emerged even stronger from the fraudulent elections. He has control over every public institution, as well as local appointments. His involvement in corruption schemes has become increasingly evident. On the positive side, Ms. Flores Nano praised the role of the OAS in condemning the elections, even though the censure was not as strong as some Peruvians had hoped. She also praised Canada and the United States for their particularly important role in trying to resolve the political crisis in Peru. The future according to Ms. Flores Nano holds three interesting scenarios for the country. In the first scenario, the emergency program and reforms discussed by Minister Carlos Boloña fail. There is no economic growth and no institutional changes. The disappointments will likely lead to strong popular reaction against the government. The second scenario is one of economic growth with no political change, a scenario that Ms. Flores Nano believes President Fujimori and Mr. Montesinos are betting on. With economic growth people will forget about political change. In this case, she asked, what would be the role of the international community? If people in Peru are not protesting, if they are not discontent, should the international community still take part in calling for political

change in the country? In the third and final scenario, concluded Ms. Flores Nano, there is both economic and political change in Peru. Mr. Montesino resigns and dialogue is opened with the armed forces and the opposition. In this hoped-for scenario, democratic institutions would be strengthened, especially the political parties.

For Peru's Vice President **Francisco Tudela**, the problems and challenges pointed out by Carlos Boloña and Lourdes Flores Nano are on the mind of every Peruvian, whether or not he or she agrees on the details, causes and proposed solutions. He explained that most of these problems, including poverty and the concentration of power, have plagued Peruvian society for the last 129 years. What happened in the last couple of decades was an increase in the economic and social demands of the population, prompted by a profound change in the country's social structure. From 1960 to 1990, Peru's population doubled, and whereas two-thirds of Peruvians lived in rural areas in 1960, by 1990, 80 percent of the population was living in urban areas. Mr. Tudela explained that Peru is still a country of immense social differences, with no large middle class. While this is no excuse for avoiding democracy, he added, it certainly makes it more difficult to push for democratic changes. In addition, he blamed the erosion of political institutions, especially political parties, on the economic crises of the 1970s and 1980s, which left the country struggling with hyperinflation, rampant corruption, and social disorder. According to the vice president, the relative stability Peru has enjoyed in the 1990s was only the seventh in Peruvian history. The legacy of instability and turmoil remains looming on the horizon. If Peruvians don't learn to compromise and use the lessons of the past to their advantage, concluded Mr. Tudela, the country will continue on this destabilizing cycle, which is rooted in history. As long as institutions remain unchanged, he noted, it will be business as usual in Peru.

Session 7

Ecuador: Renewed Hope?

Augusto de la Torre, World Bank financial advisor for Latin America and the Caribbean, discussed the merits of dollarization in Ecuador. For Mr. de la Torre, a former central bank president of Ecuador, the decision to dollarize was inevitable. It was the only way to free the country from a vicious cycle of devaluation and insolvency. At the same time, however, the decision has created unprecedented challenges for the government. It is too early to determine the full impact of dollarization. But at present, many challenges persist, including the potential lack of liquidity of the banking sector. A further challenge to successful dollarization is the fact that economic crisis and inflation have sharply reduced average wages, increasing social tensions. Since prices were still rising after dollarization came into effect, the decision was initially unpopular among wage earners. Public debt is also a serious problem. Ecuador has one of Latin America's heaviest public external-debt burdens. Moreover, since the mid-1990s the public sector has accumulated substantial domestic debt with domestic treasury issues, virtually all of which are dollar-denominated. Even after the 1999 debt rescheduling and the suspension of debt service on external bonds, total debt services continue to consume a large portion of public expenditure in Ecuador. On the positive side, Mr. de la Torre pointed out that the economy has recently rebounded and interest rates are down. Inflation rates have increased, mainly because dollarization commenced at a highly depreciated exchange rate. But once this imbalance is resolved, inflation will converge to international levels. Turning to politics, Mr. de la Torre concluded that Ecuador continues to struggle with problems of governance and a flawed political system that leaves the government dependent on fragile shifting coalitions.

Roberto Baquerizo, managing director for Latin America at Pro Ventures, agreed that dollarization brought about much needed stability to Ecuador's economy. In fact, the economy has shown signs of growth in 2000. Mr. Baquerizo reminded conference participants that Ecuador has been facing severe macroeconomic crises since 1998. In 1999, real GDP fell by more than 7 percent and the sucre devalued by more than 60 percent against the dollar. The population endured recession and a frightening escalation in unemployment levels. The return to stability is therefore a welcome outcome of dollarization. Among other things, the dollar has allowed the country to renegotiate its heavy debt burdens with foreign investors. But there is still a lot of work to be done to turn dollarization into a success story. For the former central bank president, one of Ecuador's biggest challenges is to reform and privatize the banking sector. The weaknesses in the banking system and financial institutions have left the country vulnerable and have put the stabilization and adjustment program at risk. Another challenge is to attract foreign investors. But Mr. Baquerizo joked that this is a job for CAF. Turning to politics, he criticized the weakness of the country's political institutions and the lack of a national agenda. For Mr. Baquerizo, the country needs to foster the development of national political parties and address the increased fragmentation of its society.

“Dollarization was the only way to free Ecuador from a vicious cycle of devaluation and insolvency.”

(Augusto de la Torre)



Joaquín Vial of Harvard, Carnegie Senior Associate Nancy Birdsall and IDB economist Eduardo Lora

Session 8

South American Integration and Hemispheric Free Trade

Panel chair **Rubens Barbosa**, Brazilian ambassador to the United States, opened the session by focusing attention on the August 2000 South America Summit, which he characterized as a positive step toward regional integration. Convened by Brazilian President Fernando Henrique Cardoso, the heads of state of South America met in Brasilia for their first summit ever to discuss infrastructure integration and common approaches to emerging challenges such as globalization and the technology revolution.

CAF President **Enrique García** picked up on the topic and offered a rich and comprehensive overview of the results of the South America Summit. He agreed with Ambassador Barbosa that the first-ever summit of South American heads of state is an encouraging step toward regional integration. Mr. García pointed out that on the occasion, leaders discussed the prospects of greater trade cooperation between Mercosur and the Andean region. Other successful points to emerge from the summit were a commitment to democracy and the recognition that globalization is a reality. South American leaders also expressed their support for the peace process in Colombia, even though the conflict was not an item on the meeting's official agenda. As expected, regional infrastructure projects were the focus of attention in Brasilia. Mr. García reported that the leaders agreed on the need to develop a regional approach to infrastructure and to elaborate an integral concept for competitiveness. They also discussed the potential role of the private sector and agreed on the need to find ways to improve and stimulate private investment in infrastructure in the region. Mr. García praised the Summit's plan of action saying that it falls within a broader framework for sustainable development that takes into account important environmental concerns. According to Mr. García, the Summit is

not going to become a mere reference in diplomatic books. There is already a clear mandate for a follow up meeting, this time with transportation ministers. But to further advance the goal of regional integration, remarked Mr. García, we need to see more than cooperation among the region's leadership. There are still many challenges to be addressed in South America. The most important are restoring peace in Colombia and improving the economic performance of the region as a whole.

Sebastian Alegrett, secretary-general of *Comunidad Andina*, noted that successful regional integration efforts have always depended on the initiative of key regional economies. In this sense the South America Summit, the brainchild of the region's leading economy, Brazil, was indeed a step in the right direction. Mr. Alegrett added that successful regional integration also depends on cooperation among sub-regional trade blocs. In the case of South America, this means cooperation between Mercosur and the Andean region. That a tariff agreement was signed in 1998 between Mercosur's leaders Argentina and Brazil and the Andean region shows that relations between the two blocs are being strengthened. Nonetheless, differences remain between the Andean countries and Uruguay and Paraguay, Mercosur's additional members. But Mr. Alegrett pointed out that the countries are working out their problems, and the prospects for progress look encouraging. He called on Mercosur and the Andean region to look into deepening trade relations with Chile, an important economy in South America and a strong and aggressive trader. As for the smaller economies in South America such as Guyana and Suriname, Mr. Alegrett explained that they too should be brought into the integration process. In conclusion, he noted that although the agenda of the South America Summit was timely and comprehensive, it did not include important areas that should be opened for regional cooperation, including telecommunications, water and sanitation, and especially custom practices.

“ The first-ever summit of South American heads of state is an encouraging step toward regional integration. ”
(Enrique García)

Guido di Tella, former foreign minister of Argentina, challenged the optimism of preceding panelists with regards to the prospects of regional integration. He remarked that the seeds of regional integration have not yet been sown and there are already immense obstacles on the horizon. The growing rifts between Mercosur's leading economies, Brazil and Argentina, pose a very serious challenge to integration. He reminded the audience that Brazil's messy currency devaluation in early 1999 almost destroyed the customs union. The bloc survived, but according to Mr. di Tella, it emerged much weaker. Now, Mercosur is learning to cope with the dividing lines that have surfaced between its two core members. And it has not been easy. Protectionism movements in Argentina for example have become increasingly serious. Turning to hemispheric free trade, Mr. di Tella was no less critical. He remarked that the creation of a Free Trade Area of the Americas (FTAA) looks like a very good idea on paper. Its practicality, however, is another matter. The FTAA involves getting a very detailed and comprehensive agreement out of 34 very different economies with very different agendas. One can only start to imagine the enormity of the challenge ahead.

For **Carla Hills**, chairman and CEO of Hills & Company, the creation of a free trade area in the Americas is indeed an enormous challenge. But it is also key to the economic success of the hemisphere. For the former U.S. trade representative, progress on the FTAA will depend in large part on the U.S. president getting Fast Track authority from congress. She recognized the emergence of important and complex trends in trade negotiations. The labor and environment issues pose the greatest challenges and for Ms. Hills, these should be kept off the negotiating table. She argued that labor and environment issues are better dealt with by their appropriate international organizations, such as the International Labor Organization (ILO). Holding trade negotiations hostage to labor issues means holding workers

across the hemisphere hostage as well. Most importantly, the best way to upgrade working conditions in developing countries is through increased trade. Ms. Hills pointed out that trade leads to growth and increased efficiency, which in turn lead to improved standards of living and better working conditions. Turning to the North American Free Trade Agreement (NAFTA), she remarked that the objective is to leave no trade barrier standing between the North American neighbors. For Ms. Hills, anything less would fail to stimulate the North American economy, which in turn could feed political disillusionment with the agreement. Turning back to the FTAA, she remarked that the hemisphere-wide agreement is a new challenge in terms of resources and regional cooperation. In fact, she concluded, one could not expect cooperation at the regional level to deliver the same kind of economic results as hemisphere-wide cooperation.

Closing Dinner at the Inter-American Development Bank in honor of CAF's 30th Anniversary

Keynote Speaker
Thomas Pickering
U.S. Under Secretary of State for Political Affairs

Congratulatory remarks by
Kenneth "Buddy" MacKay, Jr.
White House Special Envoy for Americas

Enrique Iglesias
President of the Inter-American Development Bank

U.S. Under Secretary of State for Political Affairs **Thomas Pickering** spoke about the challenges in Colombia and discussed U.S. support for *Plan Colombia*. For Ambassador Pickering, while the US \$1.3 billion aid package is significant, it is not as significant

“ The growing rifts between Mercosur's leading economies, Brazil and Argentina, pose a very serious challenge to integration. ”

(Guido di Tella)

as the commitment from government of Colombia, which amidst severe recession has pledged to invest US\$4.5 billion of its own funds to the success of the \$7.5 billion plan. He reminded guests that *Plan Colombia* is not purely a military plan. In fact, only about 25 percent of it is devoted to counter-narcotics efforts. The rest is focused on building and strengthening civil society, including addressing human rights issues. Accordingly, the U.S. support for Colombia does not focus only on drug trafficking. It includes development assistance, assistance for internally displaced persons, environmental protection, resources for local governance, and programs to help improve the administration of justice and protect human rights. On the issue of human rights, Ambassador Pickering remarked that President Andrés Pastrana has made important progress. But more remains to be done. And it is important that the two governments move forward to address the underlying causes of human rights problems.

He explained that Colombia is currently trapped in a vicious cycle of economic recession and rising violence. For Ambassador Pickering, the only permanent solution to Colombia's problems is a permanent peace, and that is the reason the United States fully supports the country's peace process.

He criticized the frequent analogies between U.S. involvement in Colombia and Vietnam. The United States, he explained, has not provided any counterinsurgency support to Colombia. The South American country will provide all of the men and most of the wherewithal for the fight; the U.S. role is training, equipping, and providing intelligence support. Ambassador Pickering stressed that it is not in the U.S. national interest, nor that of any country in the hemisphere, to have a corrupt narcostate among its neighbors. Non-involvement in Colombia, he explained, would do nothing to address the problem of sharp increase in coca production. Worse, it would allow paramilitary and guerrilla groups to continue their mayhem unhindered, with no firewall against regional

spillover. He pointed out that *Plan Colombia* has provided the comprehensive framework needed to approach Colombia's problems. Change is going to take a long time, concluded Ambassador Pickering, but with the help of its friends, including the United States, Colombia will succeed in curtailing narcotics production, bolstering its democracy, governance and human rights record, and seeing the peace process through to a satisfactory conclusion.

White House Special Envoy to the Americas **Buddy MacKay** commended the Andean Development Corporation for its exemplary leadership in the Andean region for the past thirty years. He acknowledged the institution's enormous contribution to advance the goals of economic and social development in the Andean countries. Over the years, added Governor MacKay, CAF programs have provided vital support to Washington's policy objectives toward the region, which has become an area of critical priority for the United States. Specifically, he cited CAF's continuing high-level support for the Colombian government, which complements U.S. assistance through *Plan Colombia*.

IDB President **Enrique Iglesias** congratulated the Andean Development Corporation on its 30th anniversary and praised the leadership of CAF President Enrique García. Mr. Iglesias remarked that under Mr. García's leadership, CAF has become the principal multilateral source of financing for the Andean region. He added that the IDB was very proud to have played a role in helping CAF enhance and consolidate its position as a key player in the Andean region and in international capital markets. Mr. Iglesias emphasized the strong partnership between the two institutions, pointing out that their collaboration over the years has helped bring peace and good government to the region. On this point, he highlighted the work that the IDB and CAF did together in 1998 to help bring about social and economic development in the once-disputed frontier region between Peru and Ecuador.

“ U.S.

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(Thomas Pickering)

Andean Competitiveness at a Glance: Summary and Introduction

Joaquín Vial and Jeffrey Sachs¹

*Background paper examining the state
of the Andean region for the
Andean Competitiveness Project*

April 5, 2000

The global economy offers new opportunities for rapid economic growth but also risks of serious economic failures. Success depends on a sound development strategy that enhances a country's economic competitiveness. Critical elements in the design of this strategy are the formulation and execution of sensible, forward-looking policies; the establishment and strengthening of functioning institutions; and the efficient use of human and physical resources. The Andean countries are at a stage in their development where a new strategy needs to be devised for successful competition in international markets.

The Andean countries are among the most richly endowed in terms of natural resources, but at the same time they are also extremely exposed to natural disasters, as shown by recent events in Ecuador, Peru, and Venezuela. They are also among the worst-performing countries in terms of economic development and growth, both recently and in retrospect. On top of that, they exhibit large disparities in income distribution, something that they share with the rest of Latin America as a very worrisome characteristic.

¹ This paper draws heavily on the background papers prepared for the Andean Competitiveness Project, a joint initiative of CAF and Harvard's Center for International Development. Larry Rosenberg made very helpful comments and suggestions on earlier versions. The authors are solely responsible for remaining errors and omissions.

The prevailing forms of production and competition in the Andean region are inadequate for the 21st century. Exports are heavily concentrated on products that embody an abundance of natural resources, and much of the labor force still has very low educational qualifications. Home-grown science and technology play very little role in the economic process. And none of the economies is adequately part of the new information technology revolution. These characteristics are not conducive to dynamic economic growth in the modern knowledge-based economy. The reliance on primary products and traditional production methods also threatens the physical environment in much of the region, and thereby the sustainability of development for future generations. Some of the countries in the region are in an acute economic crisis, where there is little doubt about the need for a new strategy. Even in the relatively more dynamic economies of Bolivia and Peru, however, the evidence suggests the need for changes to enhance competitiveness with the rest of the world.



OAS Assistant Secretary General Luigi Einaudi and Lourdes Flores Nano of Peru.

“The Andean region lags behind in the basic infrastructure needed to take advantage of the revolutionary innovations in information technologies.”

The purpose of the Andean Competitiveness Project is to find some key areas of intervention for these countries to strengthen their competitive position so they can break away from the vicious circle of slow growth and instability, and move into a sustainable path of continuous growth and social progress. Recent experience shows that these countries can produce this kind of change. Just a few years ago Bolivia was a paramount case of instability and economic deterioration. After little more than a decade it ranks among the most stable countries in the region and has experienced continuous—albeit slow—growth.

This paper attempts to set a reference point at the onset of the project. It is an outside view of how these countries stand today as compared to other Latin American countries, other developing countries, and the rest of the world in general, in areas that are considered critical for the competitiveness of the region. Some of these characteristics are given—a very dramatic geography, for instance—and we can think only in terms of policies to overcome the challenges they pose. Others must be addressed over the long term—education is the most evident—but policies must be put in place today so that current and future generations can have an opportunity for better performance. Many of the region’s characteristics, however, can and must be addressed in the short term with a reasonable hope that we might observe positive results in a not-so-distant future.

1. Geography and Nature

As John Gallup explains in his paper, one clearly dominant feature of these countries, which sets them apart from any other group of countries, is their unique geographic situation. These are rugged, very fragmented countries, with at least three clearly defined zones in each of them: the coastal range, with a large population and a tropical climate; the highlands, with difficult access and also a large human presence; and the Amazon rain forest, sparsely popu-

lated and with very few connections to the outside world.

The populations in the three regions have different ethnic backgrounds: in the coastal range most of the people have Spanish or African ancestors, while in the “Sierra” the descendants of the aboriginal tribes are dominant, with very little mingling with the other races. Finally, in the jungle there are the indigenous groups, along with a few settlements of people from the rest of the country. But not only mountains are a cause of isolation, Bolivia’s problems are made worse by being landlocked.

Geography has significant effects in a range of economic dimensions. It has a direct impact on economic performance of the agricultural sector, with tropical yields growth being significantly lower than non-tropical yields. Latitude also has a significant correlation with incidence of disease, with the Andean countries faring worse than otherwise comparable countries.

The Spanish language is common to all five countries, but within the countries, several large indigenous groups maintain their native languages, and many of them are illiterate in Spanish. Geographical barriers within the region contribute to the continuing isolation of non-Spanish-speaking ethnic groups.

The development of adequate infrastructure for transportation and communications is essential for overcoming the challenges posed by the region’s difficult geography. However, the available indicators show that transportation infrastructure is very weak. Even worse, as Geoffrey Kirkman points out in his paper, the region lags well behind in the basic infrastructure needed to take advantage of the revolutionary innovations in information technologies that might help to compensate for part of these problems.

The economic history of these countries has been marked by the “colonization” of wild areas in favor of more agricultural land, on one hand, and by the exploitation of primary resources like timber, fish, minerals, and oil. As Jeffrey Sachs and Matías Braun show, the Andean region relies on its



Princeton Professor Ricardo Luna, former Minister of Government Fernando Cepeda of Colombia, and OAS Secretary General César Gaviria

primary resource base to generate about 97 percent of its exports earnings, which is by far the largest fraction for any given group of countries, with the exception of some of the Gulf states.

2. Governance

The five countries also share a common heritage of being former colonies of Spain, gaining their independence early in the 19th century. In all cases, though, independence failed to bring political stability. A long history of infighting followed, with military and civilian “caudillos” playing a predominant role. Economic life evolved around a few activities like agriculture, and exportable commodities like minerals and other raw materials. Within very poor countries, exploitation of these natural resources was at the origin of considerable large private fortunes. When the tax collection system allowed it, governments were able to share in part of those rents and used them to provide services or jobs, with a very high rate of leakage to unwanted purposes.

Rent-seeking behavior has been a trademark of these countries, starting early in Colonial times, when access to wealth and slaves was granted by the Spanish Crown.

Institutions in these countries have been generally weak and susceptible to capture

by special interests. This has resulted in widespread disillusionment with traditional politics and has made the banner of “anti-corruption” quite popular, playing into the hand of many “caudillos” in the past. During the hard times of the last decade, this characteristic had a debilitating influence on the traditional parties in almost all the countries of the region.

As Rachel McCleary shows in her paper, the Andean countries rank low in almost all traditional indicators of governance.

However, the countries’ performance has diverged in recent years, with significant progress in Bolivia and some in Peru, but a marked deterioration in Colombia and Ecuador. Rule of law is generally perceived as weak and somewhat skewed; several countries have embarked on ambitious reforms of their judicial systems, trying to make them more agile and independent.

Traditional problems of governance have been made worse by the widespread influence that coca production and drug smuggling have had over a range of activities in these countries. Attempts by governments to restore the rule of law have been met with armed responses by the cartels, and violence has risen to very high levels, especially in Colombia, where the presence of guerrilla and paramilitary groups makes the situation even more complex.

3. Macroeconomics and Trade

Almost all of the Andean countries embraced inward-looking, closed-economy strategies after the great crisis of the 1930s. Government played a strong role, not only in traditional areas like education and health services, but also in infrastructure and even basic industries. Although at the beginning, this new path led to some eco-

“ Traditional problems of governance have been made worse by coca production and drug smuggling. ”

“ The Andean region ranks as one of the worst performing in the last three decades. ”

conomic growth, it also increased dependence on natural resources as a result of overvalued currencies and the high cost of capital and industrial inputs.

The import substitution era was heavily marked by the distortions introduced by regulations and privileges granted to special interest groups through import licenses, access to subsidized credit, tax regimes, and even through generous price controls.

The expanding economic role of government was a source of continuous and growing pressure on very weak public finances; the fiscal sector became a major source of economic instability. Rising tensions and severe economic crisis followed the inability of successive governments to cope with foreign exchange instability and rising fiscal deficits. Economic performance as a whole deteriorated. In fact, this group of countries ranks as one of the worst performing in the last three decades. As Sachs and Braun show, per-capita output of these countries has grown less than the advanced countries, Asia, all other developing countries as a whole, and even less than the rest of Latin America. There are also very worrisome signs of economic stagnation: four of these five countries have not managed to rise back to the level of per-capita GDP they had at the beginning of the eighties.

Economic crisis brought an opportunity for political and economic change. As in the case of Chile before, both Bolivia and Peru came out of the crisis with major changes in the political and economic system. Both embraced strict stabilization programs, eliminated government interference in most day-to-day economic affairs, eliminated price controls, and opened up their economies to foreign competition. The



Ramón Piñango of Venezuela's IESA, OAS Ambassador Peter Boehm of Canada, and Ana María San Juan of the Universidad Central de Venezuela

other countries have also moved in the direction of reforming their economies, albeit at a slower pace. All in all, however, we have now a region that is learning to perform in a more open and competitive environment, where business success is more linked to productivity gains and less to special favors by authorities.

Paradoxically, those countries that suffered the least during the 1980s have been the ones that moved backwards during the nineties. Colombia is probably the most dramatic example: from being among the most stable countries in the whole region, it is now ravaged by violence, with whole areas of the country out of government control. On the economic side it is suffering slow growth and high inflation, and has fallen into chronic fiscal deficits. Ecuador has recently been on the brink of hyperinflation and Venezuela has been in a steady decline for more than a decade, with some short periods of relief when the price of oil was at a cyclical high. The recent economic crisis is a cause for concern, not only because of the ground lost in terms of economic progress, but more important, because it has strengthened those who are advocating a return to pre-market-reform policies.

As Xavier Arcos explains, all of the Andean countries have gone through at least some stages of a market-oriented reform

process, moving toward freer and more open economies. Even though this has helped them to diversify away from traditional resource-based exports, there is still a long way to go. It is worth noting that the effort to create a more competitive environment has been partially offset by large capital inflows that caused severe currency appreciation. In the last few years, some of the countries have also been making attempts at fundamental changes in key areas that are seen as preconditions for growth: strengthening the educational system, reforming the judiciary system, etc. In some cases these efforts are being promoted as part of a new strategy for enhancing competitiveness in an integrated world economy.

Still, these countries remain extremely dependent on their natural resource base to generate export revenues, a characteristic that makes them highly vulnerable to primary commodity price shocks. Even though there has been some diversification, as Mumtaz Hussain, Steve Radelet, and Cristina García show, it is still too little to make a significant contribution to macroeconomic stability. On the other hand, the combined effect of ample foreign capital flows during most of the 1990s and continuing natural resource dependence has produced appreciation of the currencies that complicated the development of new exports or import-competing sectors.

Trade integration efforts, like CAN, for instance, have helped to capture some economies of scale, but the general state of the Andean economies has offset any significant “microeconomic” gains coming from these efforts.

4. Sources of Future Growth

When we look at the sources of past growth for these economies, as Sachs and Braun do, we find that they have relied mostly on capital and the expansion of the labor force, and very little on technical progress. Given low savings rates and the severity and extent of poverty, the Andean countries have to find a way to grow at rates higher than those of capital and labor.

This means that innovation and increasing overall efficiency must be key components in any strategy that hopes to accelerate economic growth in the future.

The first generation of economic reforms has brought macroeconomic stability and better signals for resource allocation, and therefore a better environment for economic growth. Competition and markets are slowly but steadily replacing cronyism and bureaucratic controls.

However, the Andean countries are lagging behind in areas that constitute the basis for competitiveness in a much more dynamic world, in which knowledge and innovation are the key sources for rapidly evolving advantages. Urgent action is needed to address the most pressing issues in order for the region not to be left even further behind. Jong-Wha Lee clearly shows in his paper the relatively low levels of educational attainment and achievement in the Andean countries, even when compared to other countries in Latin America. He also notes the underdevelopment of secondary education, which is critical for obtaining a better-trained labor force in the future.

The region also ranks very low in terms of scientific discoveries and technical innovation, as Calestous Juma and Mirjam Schöning point out in their paper. The region not only devotes too few resources to innovation, even when compared to other developing countries like Argentina, Chile, or Korea, but more worrisome, it also lags behind in developing human resources for research, as well as in basic preconditions for innovation, like protection of intellectual property rights.

When we look into arenas where worldwide innovation is taking place at a very fast pace, like information technologies, we see that these countries are lagging behind in some key infrastructure that is needed to take advantage of these changes. Geoffrey Kirkman shows that even for some basic indicators like telephone mainlines, or the number of computers per person, the region is behind many developing nations. Part of the problem originates in the inability of state-owned monopolies to keep up with

““ **Competition and markets are slowly but steadily replacing cronyism and bureaucratic controls.** ””

““The state of the environment is playing a negative role in the development of competitive advantages by the Andean countries.””

technological developments and invest in key service areas like telecommunications and electricity (both generation and distribution). Those countries that have been able to privatize and modernize regulation of public utilities have experienced very fast expansion and renovation in these areas. In some others, new technologies like cellular telephones, for instance, have provided a way to bypass the above-mentioned obstacles, albeit at very high costs.

5. Sustainable Growth

The state of the environment and the policies in place are also playing a negative role in the development of competitive advantages by the Andean countries. Some traditional resource-based products are facing threats to their continued access to developed-country markets, because of rising environmental concerns there. Environmental groups in developed countries are increasingly striving to limit developing countries' ability to export natural-resource-based products that are not managed in a sustainable way (as defined by developed countries), even though such constraints are not fully compatible with WTO principles. Several developing countries have already signed treaties binding them to environmentally friendly practices in key areas like logging (see Table 10 in Panayotou et al chapter). They are facing problems now because the institutional setting is too weak to deliver the kind of results that are being promised in many cases. On the other hand, and once all players in each government are consulted, it is not clear whether the countries are truly willing to forego the income and jobs that they are supposed to sacrifice in order to satisfy those demands.

On the other hand and under strong pressure to produce results, policies tend to rely too much on command and control mechanisms, as Panayotou, Lozano, and Boscolo discuss in their paper. These instruments not only rely too much on the skills and honesty of regulators, but also tend to be detrimental to competitiveness,

because they impose unnecessary costs on the production process. Besides, they can also jeopardize access to foreign markets as they fail to deliver promised results. They also tend to discourage development of new activities, since such activities might be subject to administrative regulations and controls with high—and difficult to measure—economic impact. Problems are usually compounded by the tendency to adopt very strict environmental standards, more appropriate for rich countries than for countries in which a large fraction of the population is well below the poverty line.

However problematic the actual design and management of environmental policies in these countries, it cannot be forgotten that water and air pollution are serious health hazards, involving high economic costs in many developing countries. Pollution reduction and treatment consumes or at least competes for precious fiscal funds that are also needed to foster education or to develop much-needed transportation infrastructure, for instance. Thus the Andean countries need cost-effective environmental policies, as well as the opening up of these markets for the private provision of public goods and services, under the appropriate set of incentives and regulations.

Moreover, it is also clear that the historical pattern of development of the region has had both negative impacts on the environment, and at the same time made large human settlements vulnerable to natural disasters. Deforestation, water pollution, soil erosion, and destruction of unique natural habitats are common problems to all of these countries. Up to a very short time ago the dominant view of development was that of promoting “conquest and settlement,” with natural resources and the environment serving only as items to be exploited. Only in the last few decades has this view that prevailed since the arrival of the *Conquistadores* in the XVI century begun to change. However, a lot of damage has already been done, large cities have grown in unsafe places, streams have been polluted beyond recovery in the short term, and

enormous quantities of productive soil have been lost to deforestation and erosion. At the same time, poverty is probably one of the strongest causes of environmental degradation, both in large urban settlements that expand without control and without appropriate infrastructure, and in the countryside, where low-productivity agriculture still grows at the expense of natural habitats. So far, development, however slow in these countries, has been at the expense of the “stock of natural capital,” to the point that the future stream of earnings from this type of capital is in serious jeopardy.

6. Regional Challenges and ACP Agenda

The challenge ahead is to find ways out of these vicious circles, to discover new development alternatives, to devise creative policies that will reinforce and give direction to market forces, and to build political support to turn crises into opportunities for change.

The experiences of Chile, Bolivia, Peru and other developing countries in different regions show that change is possible. We need to examine the successful experiences of some other developing countries and extract from them those elements that are applicable to the Andean countries, and explore totally new roads, as well.

In this introduction we would like to point to some of the areas that the different chapters have suggested as possible alternatives to explore.

On the macroeconomic side the whole issue of natural resource dependence and its impact on stability is predominant. This means that we have to deal with the shocks that arise from a very concentrated and vulnerable export pattern that exists today. Diversification is a key issue: Should the Andean countries transfer resources from traditional primary sectors? Or should they focus their energies on controlling the negative side effects and vulnerabilities associated with dependence on natural resources?

Related to the former questions, there is also the issue of what is the type and degree of diversification that these coun-

tries need in order to integrate successfully in a very dynamic world economy. There is no obvious answer to this question, and much will depend on the capacity of each country to provide the necessary human and infrastructure resources required to develop truly competitive world class sectors. On the other hand, supply-side constraints might also put a limit on the capacity to absorb financial resources in other areas or productive sectors. We have to find what are the relevant constraints for diversification. What role may be played by the educational system and by science and technology policies in this strategy? How can business, government, and other sectors promote diversification of the country's economy in a way that will best promote economic growth and stability? At the same time we have to formulate policies that will be able to withstand the long tradition of rent-seeking that has afflicted these societies for a very long time.

Trade and foreign investment strategies and policies should be reviewed, analyzing successful international experiences and seeking ways to adapt them to the region's institutions and culture. Especially important in this respect is an analysis of the forces that motivate multinational corporations to locate in a given place, and to design policies accordingly.

It is clear that in order to be able to secure a steady stream of resources to support the new reforms, we have to strengthen public finances and institutions. This is necessary to ensure the persistence of government efforts, as well as for macroeconomic consistency. Other key institutions to examine are those dealing with monetary and exchange rate decisions, as well as the supervision of banks.

We must also examine three aspects of the role of capital markets: first, as providers of the necessary funds to finance the development of new activities and to mobilize resources toward the new sectors and clusters that will be the basis for new sources of competitiveness; second, as a possible source of instability, when international capital flows are confounded by short-term signals

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““ **Specific actions
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and investors lose a long-term perspective on these countries; and third, as a means of diversifying away from natural resources, by investing the proceeds coming from the exploitation of exhaustible resources in a truly diversified portfolio.

On the microeconomic side we have to look into new ways to develop the necessary infrastructure to develop new opportunities for competitiveness. Given the fragmentation that these countries suffer, the issue of mobility of resources, outputs, and information seems to be a key dimension. The role of private financing, construction, and operation must be explored.

The countries' readiness to absorb new information technologies should be addressed by identifying the main obstacles to the dissemination and adoption of these new technologies, as well as by crafting proper policy initiatives. Education and science and technology policies must be similarly reviewed. Specific actions by government agencies that can induce innovation in the private sector must also be analyzed.

The project should consolidate existing information about new areas or activities that might constitute the basis of clusters of competitive and mutually supportive industries and services. At the same time, it should explore in a systematic way those distortions that produce false market signals or increase substantially the cost of doing business in each country. Proper benchmarks for comparisons should be generated.

Understanding environmental policies is also critical if we are to address in a fully comprehensive manner the long-term competitiveness of the Andean countries. Two areas of analysis stand out as

very important: (a) assessing the right means and intensity of using the resource base, and (b) crafting a well-functioning relationship between environmental policy and the cost of doing business in each country. Environmental policies can generate substantial inefficiencies in the economic system and, on the other hand, their absence can also be extremely harmful for development. The capture and application of economic rents coming from the extraction of natural resources, both to reduce short-term vulnerability to terms of trade shocks, as well as to diversify away from them, is another important issue, which interacts with both the macroeconomic and environmental dimensions of the project.

In the end, however, the ability of the Andean countries to carry out the initiatives and policies needed for improving competitiveness will depend critically on the capacity of the institutions to design, approve, and put them into practice. For this very practical purpose, we should address the issue of governance in at least a very limited sense: How do we get working institutions capable of delivering consistent macroeconomic and fiscal policies, effective regulatory policies, adequate taxation and revenue collection; and educational and scientific policy reform initiatives.



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APPENDIX: Competitiveness in the Andean Countries

1. These countries rank very low in terms of general indicators of competitiveness. The *Global Competitiveness Report (GCR) 1999* puts them between 51st and 58th place (within a sample of 62), with Peru the only exception (36).
2. They also rank low in terms of economic growth, with an average rate of growth of only 1.5 percent for the period 1992 to 1998 (average rate of growth of the individual countries). However, their performance is not worse than the average for the whole of Latin America, either recently or in a longer-term perspective.
3. These countries have low—even negative—growth in total factor productivity. This worsened in the eighties, in the aftermath of the debt crisis.
4. According to the GCR (1999), the weakest aspects in competitiveness for the region (absolute and relative) are technology, institutions, finance, infrastructure, and management. There are, of course, some variations, with some countries worse than others in each category, but the point is clear: these are areas of major deficiencies. Unfortunately these are areas in which changes occur over time, and short-term results are highly unlikely.
5. The areas of relative strength in the region are openness, government and—in some cases—labor market conditions. It is important to note, though, that in areas like import tariffs the region still ranks below average (i.e. with average tariff rates higher than in most countries), with Bolivia the only exception. We have to recall, though, that these rates are substantially lower than the ones prevailing in the sixties and seventies, a fact that might make these countries less aware of the need for further reductions.
6. The region also has to deal with the fact that it is perceived as a high-risk area by international lenders and investors, which will make financing a major increase in domestic investment more difficult.
7. One striking feature of the Andean countries is that they rank at the bottom in terms of transportation and communication infrastructure. This is especially serious given their geography and must be considered a major obstacle for developing a more competitive structure.
8. Even though we do not have comprehensive data on human capital, there is enough evidence to show that these countries also suffer severe disadvantages in this area. Levels of formal education are generally low and there is a large proportion of the population that is illiterate in Spanish.

“ The areas of relative strength in the region are openness, government and labor market conditions. ”

Global Competitiveness Indicators 1999

(Relative position in global ranking)

| | Global Index |
|------------|---------------------|
| Bolivia | 55.0 |
| Colombia | 54.0 |
| Ecuador | 53.0 |
| Peru | 36.0 |
| Venezuela | 50.0 |
| Avg. Andes | 49.6 |

Source: Global Competitiveness Report. 1999

| | Openness | Government | Finance | Infra-structure | Technology | Management | Labor | Institutions |
|------------|-----------------|-------------------|----------------|------------------------|-------------------|-------------------|--------------|---------------------|
| Bolivia | 41.0 | 34.0 | 56.0 | 54.0 | 59.0 | 59.0 | 54.0 | 58.0 |
| Colombia | 49.0 | 55.0 | 52.0 | 48.0 | 57.0 | 43.0 | 58.0 | 53.0 |
| Ecuador | 44.0 | 38.0 | 54.0 | 55.0 | 58.0 | 51.0 | 44.0 | 54.0 |
| Peru | 38.0 | 10.0 | 40.0 | 39.0 | 52.0 | 49.0 | 22.0 | 44.0 |
| Venezuela | 39.0 | 37.0 | 48.0 | 52.0 | 50.0 | 47.0 | 52.0 | 57.0 |
| Avg. Andes | 42.2 | 34.8 | 50.0 | 49.6 | 55.2 | 49.8 | 46.0 | 53.2 |

Source: Global Competitiveness Report. 1999

Global Competitiveness Report 1999

Quantitative Data

| | <u>Per Cap. GDP at PPP</u> | | <u>Annual per capita GDP Growth 92-98</u> | | <u>Population</u> | | <u>Avg. tariff rate</u> | |
|------------|----------------------------|------|---|------|-------------------|------|-------------------------|------|
| | (US\$98) | rank | (%) | rank | (millions) | rank | (%) | rank |
| Bolivia | 2,954 | 54.0 | 2.4 | 26.0 | 7.8 | 44.0 | 5.1 | 29.0 |
| Colombia | 6,964 | 41.0 | 1.7 | 38.0 | 38.6 | 23.0 | 10.9 | 46.0 |
| Ecuador | 4,975 | 45.0 | 0.2 | 57.0 | 12.3 | 33.0 | 8.0 | 40.0 |
| Peru | 4,508 | 46.0 | 4.1 | 10.0 | 26.1 | 26.0 | 9.5 | 43.0 |
| Venezuela | 9,041 | 34.0 | -0.8 | 59.0 | 22.8 | 27.0 | 9.8 | 44.0 |
| Avg. Andes | 5,688 | 44.0 | 1.5 | 38.0 | 21.5 | 30.6 | 8.7 | 40.4 |

Source: Central America Competitiveness Report, 1999

| | <u>Inflation</u> | | <u>Country Credit Rating</u> | | <u>Gross Dom. Inv.</u> | | <u>Government Spending</u> | |
|------------|------------------|------|------------------------------|------|------------------------|------|----------------------------|------|
| | (%) | rank | score (%) | rank | (% GDP) | rank | (% GDP) | rank |
| Bolivia | 7.6 | 39.0 | 27.0 | 56.0 | 17.4 | 55.0 | 30.4 | 24.0 |
| Colombia | 18.6 | 54.0 | 46.2 | 38.0 | 20.9 | 36.0 | 52.7 | 57.0 |
| Ecuador | 36.1 | 59.0 | 26.1 | 59.0 | 21.0 | 35.0 | 26.1 | 20.0 |
| Peru | 7.3 | 38.0 | 34.6 | 50.0 | 24.6 | 19.0 | 17.8 | 5.0 |
| Venezuela | 35.8 | 58.0 | 36.1 | 49.0 | 18.2 | 50.0 | 20.8 | 13.0 |
| Avg. Andes | 21.1 | 49.6 | 34.0 | 50.4 | 20.4 | 39.0 | 29.6 | 23.8 |

Source: Central America Competitiveness Report, 1999

| | <u>Telephone Lines</u> | | <u>Road Indicator</u> | | <u>Railroad Indicator</u> | |
|------------|------------------------|------|-------------------------|------|----------------------------|------|
| | score (%) | rank | score Km/person adj. | rank | score traffic adj. Land | rank |
| Bolivia | 6.88 | 50.0 | -1.69 | 60.0 | -1.21 | 52.0 |
| Colombia | 14.75 | 42.0 | -0.81 | 47.0 | -1.26 | 53.0 |
| Ecuador | 7.52 | 48.0 | -0.94 | 50.0 | -1.61 | 54.0 |
| Peru | 6.75 | 51.0 | -1.41 | 57.0 | -1.91 | 56.0 |
| Venezuela | 11.64 | 43.0 | -1.02 | 53.0 | -2.91 | 57.0 |
| Avg. Andes | 9.51 | 46.8 | -1.17 | 53.4 | -1.78 | 54.4 |

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I. Social Indicators

Mid-Year Population Estimates and Decade Growth Rates

(Thousands and Percent)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | Growth Rate 1990-2000 |
|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------------------------|
| Bolivia | 6,620 | 6,756 | 6,895 | 7,048 | 7,202 | 7,358 | 7,514 | 7,670 | 7,826 | 7,983 | 8,139 | 2.1 |
| Colombia | 32,985 | 33,629 | 34,296 | 34,979 | 35,679 | 36,397 | 37,124 | 37,852 | 38,581 | 39,309 | 40,037 | 1.9 |
| Ecuador | 10,308 | 10,577 | 10,852 | 11,121 | 11,381 | 11,629 | 11,869 | 12,105 | 12,337 | 12,562 | 12,782 | 2.2 |
| Peru | 21,989 | 22,501 | 23,015 | 23,531 | 24,047 | 24,563 | 25,079 | 25,595 | 26,111 | 26,625 | 27,136 | 2.1 |
| Venezuela | 19,325 | 19,801 | 20,266 | 20,706 | 21,139 | 21,564 | 21,983 | 22,396 | 22,803 | 23,203 | 23,596 | 2.0 |

Source: Inter-American Development Bank Basic Socioeconomic Data Statistical Report.

Urban Unemployment Rate

(Percent)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------|------|------|------|------|------|------|------|------|------|
| Bolivia | 5.8 | 5.4 | 5.8 | 3.1 | 3.6 | 3.8 | 4.4 | 4.1 | 4.5 |
| Colombia | 10.2 | 10.2 | 8.6 | 8.9 | 8.8 | 11.2 | 12.4 | 15.3 | 19.8 |
| Ecuador | 8.5 | 8.9 | 8.9 | 7.8 | 7.7 | 10.4 | 9.3 | 11.5 | 15.1 |
| Peru | 5.9 | 9.4 | 9.9 | 8.8 | 8.2 | 8.0 | 9.2 | 8.4 | 9.2 |
| Venezuela | 9.5 | 7.8 | 6.6 | 8.7 | 10.3 | 11.8 | 11.4 | 11.3 | 15.4 |

Source: ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean*, 1999.

GDP Per Capita

(1990 US\$)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Growth Rate* 1990-1999 |
|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------------------------|
| Bolivia | 857.4 | 872.5 | 891.3 | 910.7 | 928.1 | 946.7 | 968.8 | 954.4 | 1.5 |
| Colombia | 1,410.2 | 1,463.6 | 1,524.2 | 1,589.5 | 1,596.2 | 1,616.9 | 1,620.0 | 1,534.6 | 1.1 |
| Ecuador | 1,324.6 | 1,330.8 | 1,365.6 | 1,371.2 | 1,370.3 | 1,391.6 | 1,368.7 | 1,233.4 | -0.3 |
| Peru | 1,582.2 | 1,646.5 | 1,852.5 | 1,968.3 | 1,972.0 | 2,083.1 | 2,050.2 | 2,070.1 | 1.8 |
| Venezuela | 3,395.3 | 3,337.7 | 3,185.1 | 3,243.2 | 3,174.4 | 3,315.3 | 3,221.3 | 3,028.7 | 0.2 |

Source: Inter-American Development Bank, Basic Socioeconomic Data Statistical Report

* Average Annual Growth Rate

Human Development Index (HDI)

| | HDI Rank | Life expectancy at birth (yrs) | Combined Adult literacy rate (% age 15 and above) | 1st, 2nd & 3rd level gross enrollment ratio (%) | Real GDP per capita (PPP\$) | HDI Value |
|----------------------|----------|--------------------------------------|---|--|-----------------------------------|--------------|
| Bolivia | 114 | 61.8 | 84.4 | 70 | 2,269 | 0.643 |
| Colombia | 68 | 70.7 | 91.2 | 71 | 6,006 | 0.764 |
| Ecuador | 91 | 69.7 | 90.6 | 75 | 3,003 | 0.722 |
| Peru | 80 | 68.6 | 89.2 | 79 | 4,282 | 0.737 |
| Venezuela | 65 | 72.6 | 92.0 | 67 | 5,808 | 0.770 |
| Developing countries | | 64.7 | 72.3 | 60 | 3,270 | 0.642 |
| Industrial countries | | 76.4 | 97.4 | 86 | 20,357 | 0.893 |
| World | | 66.9 | 78.8 | 64 | 6,526 | 0.712 |

Source: UNDP, *Human Development Report*, 2000, based on 1998 data.

II. Gross Domestic Product

Gross Domestic Product

(in millions of 1990 \$US)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bolivia | 5,524 | 5,815 | 5,910 | 6,163 | 6,450 | 6,752 | 7,046 | 7,360 | 7,709 | 7,771 |
| Colombia | 48,547 | 49,337 | 51,284 | 54,272 | 57,624 | 61,263 | 62,710 | 64,746 | 66,099 | 63,786 |
| Ecuador | 12,975 | 13,694 | 14,228 | 14,613 | 15,323 | 15,714 | 16,031 | 16,612 | 16,663 | 15,307 |
| Peru | 34,600 | 35,849 | 35,366 | 37,439 | 42,850 | 46,318 | 47,218 | 50,758 | 50,839 | 52,228 |
| Venezuela | 59,411 | 65,385 | 69,420 | 69,780 | 68,091 | 70,847 | 70,824 | 5,513 | 74,869 | 71,799 |

Source: Inter-American Development Bank, Basic Socioeconomic Data Statistical Report

Real GDP Growth-Percent Change

| | 1997 | 1998 | 1999 | 2000f | 2001f |
|-----------|------|------|------|-------|-------|
| Bolivia* | 4.1 | 4.6 | 1.0 | — | — |
| Colombia | 3.1 | 0.6 | -4.7 | 3.1 | 4.0 |
| Ecuador | 3.4 | 0.4 | -7.2 | 1.0 | 4.0 |
| Peru | 6.8 | 0.3 | 3.8 | 4.9 | 4.8 |
| Venezuela | 6.4 | -0.1 | -7.2 | 3.3 | 3.5 |

Source: UBS Warburg

* This data source: ECLAC, *Preliminary Overview of the Economy of Latin America and the Caribbean*, 1999.

f: Forecast

III. Inflation

Annual Inflation

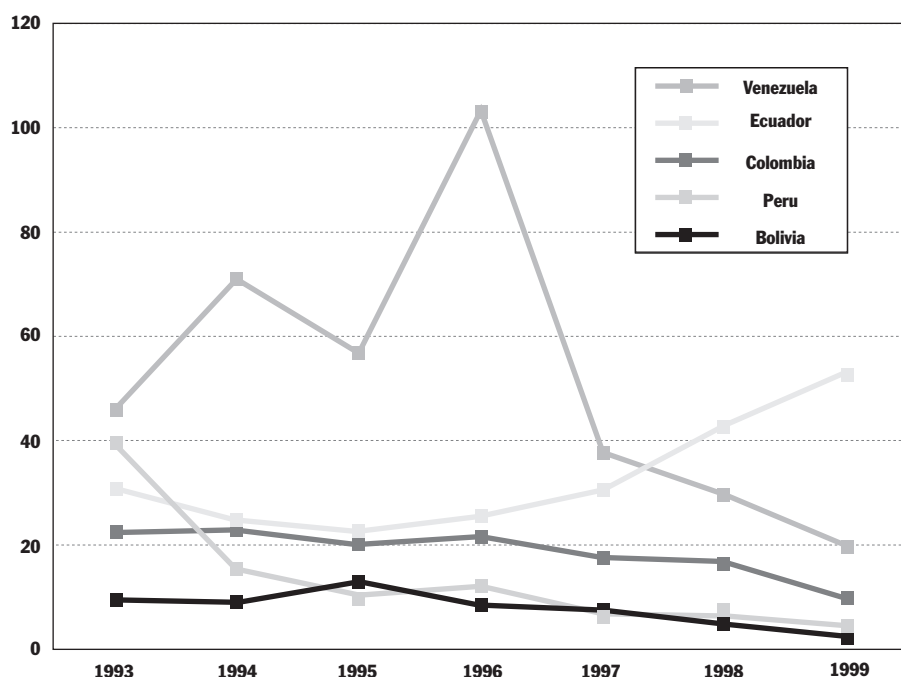
(Percent, December–December variation)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------|------|------|------|------|-------|------|------|------|
| Bolivia | 10.5 | 9.3 | 8.5 | 12.6 | 7.9 | 6.7 | 4.4 | 2.4 |
| Colombia | 25.1 | 22.6 | 22.6 | 19.5 | 21.6 | 17.7 | 16.7 | 9.7 |
| Ecuador | 60.2 | 31.0 | 25.3 | 22.9 | 25.5 | 30.7 | 43.4 | 53.5 |
| Peru | 56.7 | 39.5 | 15.4 | 10.2 | 11.8 | 6.5 | 6.0 | 4.8 |
| Venezuela | 31.9 | 44.3 | 70.6 | 55.6 | 104.5 | 36.4 | 29.9 | 20.2 |

Source: ECLAC, based on data provided by national official institutions.

Annual Inflation 1993–1999

(Percent)



IV. Exchange Rates

Exchange Rates, 1993–2001

(Market rate per US dollar)

| | 1993* | 1994* | 1995* | 1996* | 1997 | 1998 | 1999 | 2000f | 2001f |
|-----------------------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Bolivia* (Pesos) | 4.48 | 4.70 | 4.94 | 5.16 | 5.37 | 5.65 | 5.72 | — | — |
| Colombia (Pesos) | 917.33 | 831.27 | 987.65 | 1,005.33 | 1,293.58 | 1,507.52 | 1,870.00 | 2,032.20 | 2,160.60 |
| Ecuador (Sucres) | 2,043.80 | 2,269.00 | 2,923.50 | 3,635.00 | 4,428.00 | 6,825.00 | 20,100.00 | 25,000.00 | 25,000.00 |
| Peru (Nuevo soles) | 2.16 | 2.18 | 2.31 | 2.60 | 2.73 | 3.16 | 3.50 | 3.60 | 3.70 |
| Venezuela (Bolívares) | 105.64 | 170.00 | 290.00 | 476.50 | 504.25 | 564.50 | 648.30 | 747.50 | 914.80 |

Source: UBS Warburg

*This data source: IMF, *International Financial Statistics*, June 1999.

f: Forecast

V. External Debt and Reserves

External Debt Indicators

(Millions of U.S. dollars)

| | | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998* |
|------------------|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Bolivia | Total External Debt | 4,268.7 | 4,046.4 | 4,224.1 | 4,293.0 | 4,836.8 | 5,244.2 | 5,147.9 | 5,532.0 | 4,233.7 |
| | Service Payments | 442.4 | 347.8 | 287.8 | 334.1 | 347.4 | 371.3 | 412.5 | 372.0 | 322.7 |
| | External Debt/GDP | 77.3 | 65.2 | 61.1 | 58.6 | 80.9 | 78.1 | 71.5 | 70.8 | 49.4 |
| | Debt Service Ratio | 45.3 | 37.9 | 37.2 | 37.3 | 29.4 | 30.1 | 31.4 | 27.2 | 23.8 |
| Colombia | Total External Debt | 17,193.8 | 17,181.4 | 17,266.2 | 18,926.7 | 21,929.1 | 25,045.9 | 28,859.0 | 31,492.9 | 33,562.7 |
| | Service Payments | 4,093.5 | 3,754.9 | 4,008.1 | 3,706.6 | 5,570.0 | 4,344.9 | 5,400.7 | — | — |
| | External Debt/GDP | 42.7 | 41.7 | 39.1 | 37.2 | 32.0 | 31.1 | 33.7 | 32.7 | 36.2 |
| | Debt Service Ratio | 47.2 | 41.3 | 43.3 | 37.3 | 46.1 | 31.5 | 37.1 | — | — |
| Ecuador | Total External Debt | 10,586.9 | 10,575.9 | 10,234.7 | 11,819.9 | 12,725.7 | 13,977.4 | 14,409.5 | 15,099.0 | 15,000.0 |
| | Service Payments | 1,112.2 | 1,106.0 | 1,077.9 | 920.5 | 1,000.1 | 1,863.2 | 1,314.0 | 4,984.0 | — |
| | External Debt/GDP | 99.1 | 90.0 | 80.9 | 82.6 | 76.6 | 77.9 | 75.7 | 75.3 | 72.8 |
| | Debt Service Ratio | 34.1 | 32.5 | 29.0 | 24.8 | 21.8 | 35.4 | 22.9 | 83.1 | — |
| Peru | Total External Debt | 16,330.7 | 18,281.5 | 18,541.4 | 19,480.7 | 22,075.4 | 26,244.0 | 28,955.4 | 27,520.0 | 29,500.0 |
| | Service Payments | 475.3 | 1,151.5 | 1,003.4 | 3,211.9 | 1,141.9 | 1,239.7 | 2,931.5 | — | 1,750.0 |
| | External Debt/GDP | 45.2 | 42.9 | 44.3 | 48.4 | 44.3 | 44.5 | 47.5 | 42.2 | 50.8 |
| | Debt Service Ratio | 11.5 | 27.2 | 22.3 | 73.8 | 20.2 | 18.4 | 40.1 | — | 22.7 |
| Venezuela | Total External Debt | 33,170.4 | 34,121.6 | 37,701.8 | 37,349.8 | 36,559.8 | 35,537.0 | 35,048.2 | 32,000.0 | — |
| | Service Payments | 5,273.7 | 3,321.4 | 3,331.4 | 4,579.9 | 4,744.9 | 5,515.6 | 4,711.2 | 9,800.0 | — |
| | External Debt/GDP | 68.3 | 63.8 | 62.4 | 62.2 | 62.6 | 45.9 | 49.7 | 36.2 | — |
| | Debt Service Ratio | 28.0 | 20.3 | 21.5 | 28.4 | 26.8 | 26.6 | 18.6 | — | — |

Sources: IDB, *Economic and Social Progress in Latin America, 1997 Report*.

*Inter-American Development Bank Basic Socioeconomic Data Statistical Report.

Reserves

(Millions of US\$)

| | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------|----------|----------|---------|---------|----------|----------|----------|----------|
| Bolivia | 219.6 | 263.0 | 488.7 | 697.7 | 994.6 | 1,126.2 | 1,119.5 | 1,152.2 |
| Colombia | 7,918.0 | 8,049.0 | 8,215.0 | 8,571.0 | 10,032.0 | 10,011.0 | 8,857.0 | 8,198.0 |
| Ecuador | 1,033.9 | 1,545.6 | 2,009.8 | 1,794.2 | 2,025.1 | 2,259.5 | 1,786.4 | 1,808.8 |
| Peru | 3,364.6 | 3,841.9 | 7,355.4 | 8,588.4 | 10,928.0 | 11,254.2 | 9,834.3 | 9,001.4 |
| Venezuela | 13,001.0 | 12,656.0 | 11.5 | 9,723.0 | 15,228.0 | 17,818.0 | 14,849.0 | 15,164.0 |

Source: Inter-American Development Bank, Basic Socioeconomic Data Statistical Report

VI. Foreign Direct Investment

Net Inflow of Foreign Direct Investment (FDI)

(Millions of U.S. dollars)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------|-------|------|------|-------|-------|-------|-------|-------|-------|
| Bolivia | 50 | 91 | 121 | 147 | 391 | 472 | 728 | 870 | 745 |
| Colombia | 433 | 679 | 719 | 1,297 | 712 | 2,795 | 4,894 | 2,509 | 250 |
| Ecuador | 160 | 178 | 469 | 531 | 470 | 491 | 695 | 831 | 655 |
| Peru | -7 | 150 | 687 | 3,108 | 2,048 | 3,242 | 1,702 | 1,930 | 2,030 |
| Venezuela | 1,728 | 473 | -514 | 136 | 686 | 1,595 | 4,611 | 3,597 | 1,860 |

Source: ECLAC, *Preliminary Overview of the Economy of Latin America and the Caribbean, 1999*.

VII. Trade Indicators

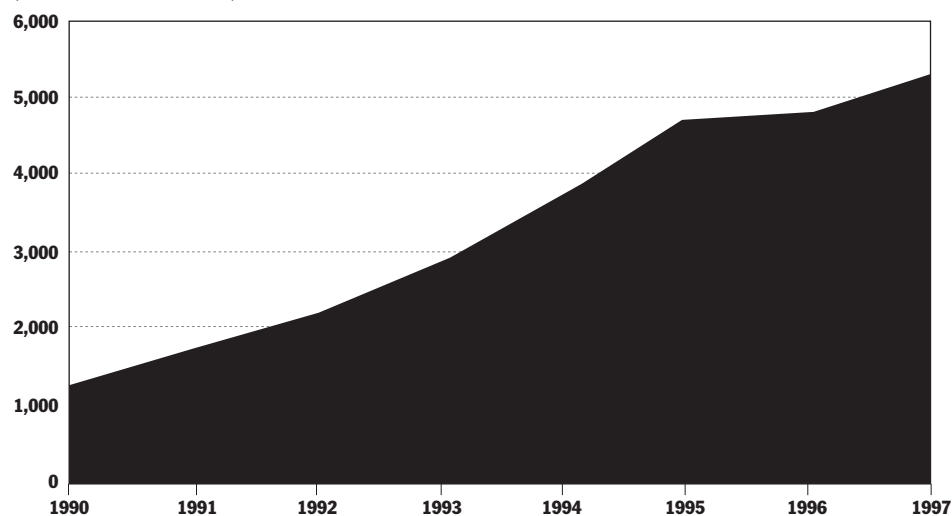
Overview of the Trade Liberalization Process

| | Before Liberalization | | | | After Liberalization (Mid-1996) | | |
|-----------|-----------------------|----------------|------------------------|----------------|---------------------------------|------------------------|----------------|
| | Starting Date | Maximum Tariff | Number of Tariff Lines | Average Tariff | Maximum Tariff | Number of Tariff Lines | Average Tariff |
| Bolivia | 1985 | 150 | — | 12 | 10 | 3 | 10 |
| Colombia | 1990 | 100 | 14 | 44 | 20 | 8 | 11 |
| Peru | 1990 | 108 | 56 | 66 | 25 | 2 | 16 |
| Venezuela | 1989 | 135 | 41 | 35 | 20 | 8 | 12 |

Source: ECLAC, *Economic Indicators*, March 1998.

Intraregional Exports, 1990–1997

(Millions of U.S. dollars)



Source: IMF, *Direction of Trade Statistics Yearbook*.

Exports, 1990–1998

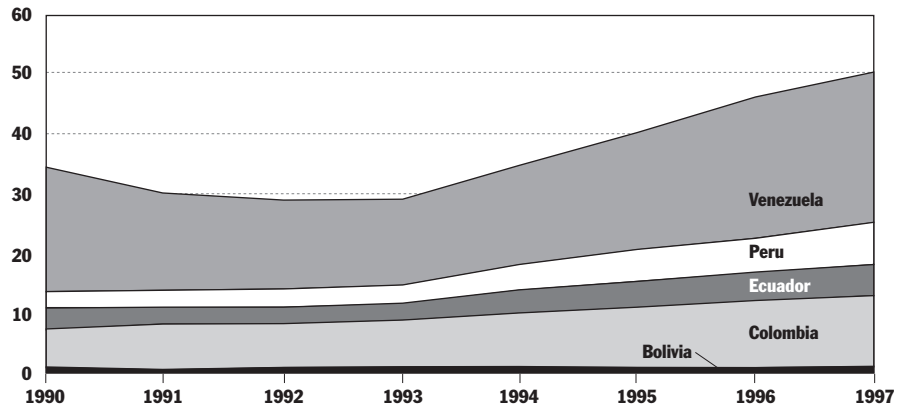
(Millions of U.S. dollars)

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bolivia | 923 | 652 | 798 | 804 | 1,123 | 1,139 | 1,216 | 1,348 | 1,320 |
| Colombia | 6,753 | 7,244 | 7,065 | 7,453 | 8,907 | 9,859 | 10,437 | 11,564 | 11,569 |
| Ecuador | 3,134 | 2,883 | 3,028 | 3,046 | 3,860 | 4,358 | 5,243 | 5,515 | 4,950 |
| Peru | 3,276 | 3,329 | 3,484 | 3,464 | 4,507 | 5,513 | 5,854 | 6,706 | 5,522 |
| Venezuela | 20,015 | 16,372 | 14,311 | 14,476 | 16,560 | 19,408 | 23,149 | 24,300 | 19,366 |

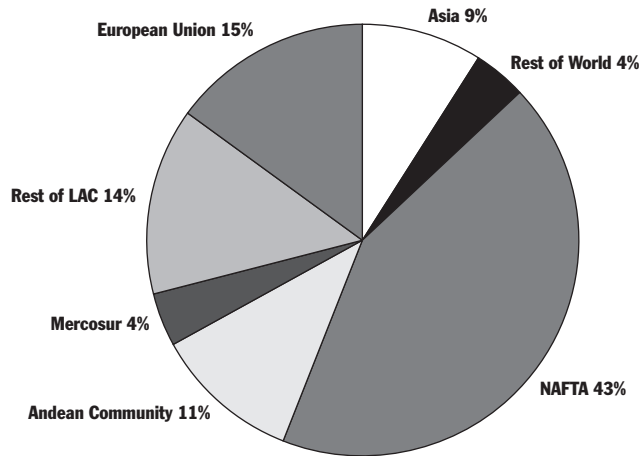
Source: IMF, *Direction of Trade Statistics Yearbook*.

Exports, 1990–1997

(Millions of U.S. dollars)



Destination of Andean Community Exports, 1998



Exports and GDP Growth Rates, 1970–1997

(1980 U.S. dollars)

| | GDP Growth | | | Export Growth | | |
|-----------|------------|---------|---------|---------------|---------|---------|
| | 1970-80 | 1980-90 | 1990-97 | 1970-80 | 1980-90 | 1990-97 |
| Bolivia | 3.9 | 0.0 | 3.6 | -1.7 | -2.4 | 8.7 |
| Colombia | 5.4 | 3.7 | 3.8 | 3.7 | 6.4 | 6.9 |
| Ecuador | 8.9 | 1.9 | 3.1 | 14.6 | 6.2 | 7.0 |
| Peru | 3.9 | -1.2 | 5.3 | 2.3 | -2.3 | 10 |
| Venezuela | 1.8 | 0.4 | 2.5 | -5.8 | 1.6 | 5.5 |

Source: ECLAC, *Economic Indicators*, March 1998.

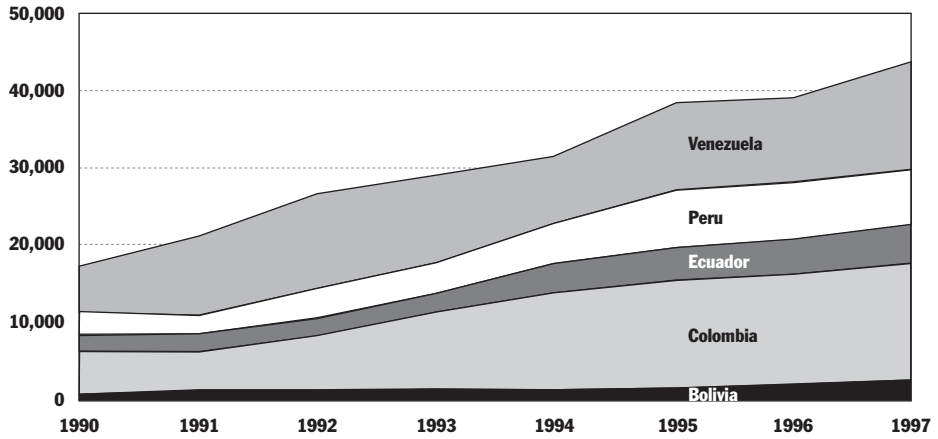
Imports, 1990–1998

(Millions of U.S. dollars and percent annual growth)

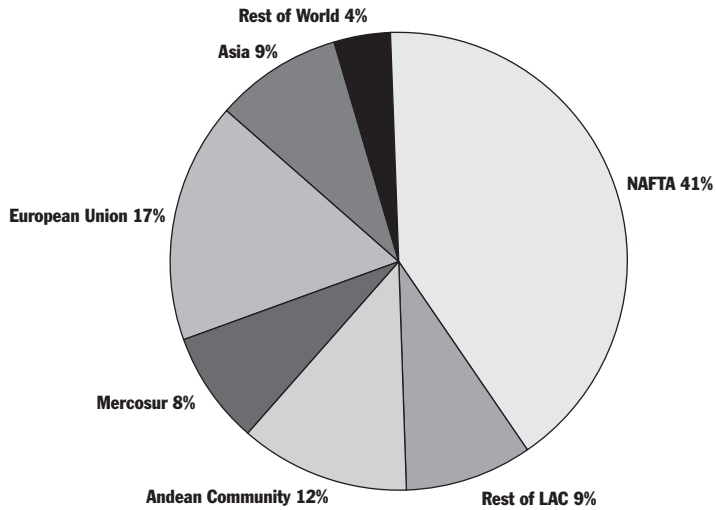
| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 |
|-----------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bolivia | 700 | 994 | 1,137 | 1,205 | 1,207 | 1,424 | 1,635 | 1,854 | 1,983 |
| Colombia | 5,589 | 4,955 | 6,686 | 9,821 | 12,435 | 13,859 | 14,354 | 15,377 | 15,085 |
| Ecuador | 1,874 | 2,420 | 2,516 | 2,599 | 3,634 | 4,193 | 4,419 | 5,193 | 5,877 |
| Peru | 2,884 | 2,476 | 3,744 | 4,008 | 5,565 | 7,537 | 7,623 | 8,192 | 7,962 |
| Venezuela | 6,111 | 10,042 | 12,342 | 11,271 | 8,277 | 11,199 | 10,827 | 14,743 | 15,511 |

Source: IMF, *Direction of Trade Statistics Yearbook*.

Imports, 1990–1997
(Millions of U.S. dollars)



Source of Andean Community Imports, 1998



Annex II: Biographies of Speakers

Sebastián Alegré is Secretary General of the Andean Community. He was formerly Ambassador of Venezuela to Colombia and Ambassador and Permanent Representative of Venezuela to the Organization of American States.

Genaro Arriagada is former Ambassador of Chile to the United States. He was also Chile's Minister of Government.

Roberto Baquerizo is Managing Director of Pro Ventures, a New York-based consulting and investment firm. He was Governor of the Central Bank of Ecuador and is a Member of the Americas Society, Group of 50, and of the Board of PREAL.

Rubens Barbosa is Ambassador of Brazil to the United States. He also served as Brazilian Ambassador to Great Britain from 1994 to 1999.

Peter Boehm was Ambassador and Permanent Representative of Canada to the Organization of American States.

Carlos Boloña was Minister of Economy and Finance of Peru.

Pablo Bréard is Vice-President, Head of International Research and Chief Latin American Economist at ScotiaBank Group. He is also Professor of Latin American Finance & Economics at York University's International MBA program.

Fernando Cepeda Ulloa is Professor of Political Science at the Universidad de los Andes. He was Colombia's Minister of Government.

Joyce Chang was Managing Director of International Fixed Income for Chase Securities. She has worked previously at Merrill Lynch, Salomon Brothers and the U.S. Agency for International Development.

(Chang is currently Global Head of Emerging Market Research at J.P. Morgan Chase.)

Augusto de la Torre is Financial Sector Manager for Latin America and the Caribbean at the World Bank. He was Governor of the Central Bank of Ecuador.

Guido di Tella is the former Foreign Minister of Argentina.

Luigi Einaudi is the Assistant Secretary General of the Organization of American States. He was Visiting Senior Fellow at the Inter-American Dialogue and served as U.S. Ambassador and Permanent Representative to the Organization of American States.

Lourdes Flores Nano is a former Member of Congress in Peru. She has been General Secretary of the Popular Christian Party (PPC) and is the Andean Area Vice-President of the Christian Democratic Organization.

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.

César Gaviria is Secretary General of the Organization of American States. He was President of Colombia from 1990 to 1994.

Peter Hakim is President of the Inter-American Dialogue.

Ricardo Hausmann is Professor of Economic Development at the Kennedy School of Government, Harvard University. He was Chief Economist at the Inter-American Development Bank and Venezuela's Minister of Coordination and Planning.

Carla A. Hills is Chairman and CEO of Hills & Company, an international consulting firm on overseas trade and investment. She was U.S. Trade Representative.

Rudolf Hommes is Partner at Violy, Byorum & Partners. He was Colombia's Minister of Finance from 1990 to 1994.

Eduardo Lora is Senior Economist at the Inter-American Development Bank. He was Executive Director of Fedesarrollo, a Colombian think tank.

Ricardo Luna is Visiting Professor of International Relations at Princeton University. He was the Ambassador of Peru to the United States.

Kenneth H. (Buddy) MacKay, Jr. was the White House Special Envoy for the Americas. He served as governor of Florida, was elected to three terms in the U.S. House of Representatives, and served in Florida's State Senate and House of Representatives.

Ramón Piñango is President of the Institute for Advanced Studies in Administration (IESA), Venezuela's leading graduate school of business.

Eduardo Pizarro was Visiting Professor at Notre Dame University's Kellogg Institute for International Studies. (Pizarro currently teaches at Princeton University.)

Marta Lucía Ramírez de Rincón is Minister of Foreign Trade of Colombia. She has served as President of the National Association of Financial Institutions (ANIF) and managed the presidential campaign of Noemí Sanín.

Peter Romero was Acting Assistant Secretary of State for Western Hemisphere Affairs. He was principal Deputy Assistant Secretary of State for Inter-American Affairs and U.S. Ambassador to Ecuador.

David J. Rothkopf is CEO of Intellibridge Corporation. He is also an Adjunct Professor of International Affairs at Columbia University's School of International Affairs and Georgetown School of Foreign Service.

Ana María San Juan is Director of the Center for Peace and Integration at the Universidad Central de Venezuela. She is also Executive Secretary of the University's Cátedra Colombia and Member of the Grupo Academico Binacional Colombia-Venezuela.

Michael Shifter is Vice President for Policy at the Inter-American Dialogue and Adjunct Professor of Latin American Studies at Georgetown University.

Roberto Teixeira da Costa is Vice Chairman of the Board of Banco Sul América and Chairman of the Latin America Business Council. He was founder of the Brazilian Securities and Exchange Commission.

Francisco Tudela was Vice President of Peru.

Joaquín Vial is the Project Director of the Andean Competitiveness Project at the Center for International Development of Harvard University. He was Chile's National Budget Director and Chief Advisor on Macroeconomic Policy at the Ministry of Finance.