



In this Issue

Democracy and the Rule of Law in Mexico's 2006 Presidential Elections
Kenneth F. Greene.....1

The Creation of the Ibero-American General Secretariat and the Implications for Latin America
Carlos Malamud.....3

Barely Squeezing Through? US Politics and CAFTA
Eric Jacobstein.....4

Cuba's Revaluation(s) of the Peso(s): Back to the Future
Nicholas Rowe.....6

Editorial

Canada's International Policy Statement: What Does it Mean for Latin America and the Caribbean.....8

News Briefs

Ecuador.....4
OAS.....6
Cuba.....8
Mexico.....9

Abstracts

Canada-Mercosur Relations.....9

Upcoming Events

FOCAL-MIF Conferences.....10

Editorial Board

Eduardo del Buey, *Executive Director*
Sharon O'Regan, *Deputy Director*
Laurie Cole, *Senior Editor*
Olga Abizaid, *Co - Editor*
Florencia Jubany, *Co - Editor*
José Hernández, *Design and Layout*

Democracy and the Rule of Law in Mexico's 2006 Presidential Elections

Kenneth F. Greene

It's not World Cup soccer, economic concerns, or the lack of an immigration agreement with the US that is capturing centre stage in Mexico these days. Even the new Pope took a sidebar in this Catholic country. Mexico is abuzz with AMLO-gate, the political fortunes of Mexico City Mayor Andrés Manuel López Obrador, who is the frontrunner for next year's presidential elections.

According to his political opponents, AMLO adheres to the laws he likes and disregards others at his convenience. In particular, they point to his slow response to a court order to stop road construction over private property that had been expropriated and then later returned to its owner. They argue that the rule of law is fundamental to democracy, no one should be above the law, and therefore AMLO should be prosecuted for failing to carry out a court order, potentially barring him from running for president.

According to AMLO's supporters, he is the victim of a conspiracy that includes President Vicente Fox, former President Carlos Salinas, the Attorney General, the ruling National Action Party (PAN), and the previously dominant Institutional Revolutionary Party (PRI). They see AMLO-gate as a political lynching driven by Mexico's power-elite who want to legislate him out of contention for the presidency because he is both popular and leftwing.

During the past month the two sides have become increasingly entrenched in their positions, playing a potentially dangerous game of up-the-ante politics. No matter the outcome, this signals a bump in Mexico's previously smooth transition to multiparty democracy.

A Brief History

In November 2000, the then Democratic Revolution Party (PRD) Mayor Rosario Robles expropriated a private, unimproved 15-hectare lot to provide an access road to a hospital. The lot's owner sued and eventually won the case after AMLO became mayor. The Attorney General charges that AMLO did not halt public works in a timely manner and asked Congress to remove his political immunity so that he could be prosecuted for abuse of authority resulting from contempt of court.

On April 1, 2005, a congressional committee voted three to one to revoke AMLO's immunity. A few days later, after some serious hand-wringing by the PRI, the full Congress voted mostly along party lines 360 to 127 (with two abstentions) to uphold the committee's decision. The Attorney General has yet to file formal charges.

The Effects

In a country with deep disparities in wealth, problems with crime, drugs, and lingering corruption, it has surprised many observers that the presidential election could hinge on a land-use dispute. And it is still possible that the situation will be defused if the Attorney General backs down or if the Supreme Court finds that the Mexico City legislature rather than the national Congress has the power to sanction the mayor. However, neither of these scenarios seems likely at this point, and while speculating on politics is nearly always a losing proposition, a few conclusions about AMLO-gate's effects can be ventured.

No matter how AMLO-gate turns out, it will have negative implications for Mexico's political parties. Despite their expansion in the 1990s and a PAN candidate winning the presidency in 2000, the PAN and PRD are poorly organized in most areas of the country and have virtually no plan for attracting the 40% of the electorate that considers itself independent. Far from helping to build party strength, this episode will make the 2006 elections highly candidate-centred, especially if AMLO campaigns from jail and the media can cast him in his beloved role of martyr.

More of a concern is the possibility for increasing class conflict in national politics. Compared to other Latin American countries, Mexico has been remarkably free of class antagonisms due to the PRI's historic dominance with multiclass support. Now there is the potential for the haves to align with the PAN and the have-nots to support the PRD. AMLO has carefully crafted his image as champion of the poor by criticizing the North American Free Trade Agreement (NAFTA) for failures of equity and by arguing for a nationalist political economy that prioritizes social justice. His opponents, including important elements of the domestic business sector and international capital, see him as a fiscally irresponsible demagogue who has no respect for private property and is willing to sacrifice economic development for low-rent populism.

So far, both sides have stoked the fires of confrontation instead of reducing them to a simmer. AMLO is quick to take his fight to the streets and invite protest. He has been less careful than he should to caution these rallies against violence (although little has occurred thus far). A major protest is scheduled for April 24. His powerful opponents have irresponsibly compared him to Venezuela's Hugo Chávez and raised alarm bells in the standard news outlets as well as trade publications. International investors could easily sense impending doom and engage in preemptive capital flight. Doing so would only vindicate AMLO's supporters and encourage broader protest. Ironically, the personalization of politics weakens the very organizations that could effectively temper hostile attitudes on both sides, the political parties.

The legal battle has also generated important questions about the purview of the Mexico City government and the national congress. The Legislative Assembly of the Federal District (ALDF) has argued that it and not the national Congress has the power to sanction the mayor. The Attorney General countered that the Federal District is not a state with its own constitution, and therefore both the mayor and the legislature are dependencies of the federal government. The Supreme Court has agreed to hear the dispute and will rule within a few weeks. A decision for the ALDF would not only lead to AMLO's

exoneration since his party holds a majority there, but may expand the power of local government and reinvigorate a 1990s movement to make the Federal District into the 32nd state.

The most uncertain effects concern the 2006 elections. Currently, AMLO bests Santiago Creel from the PAN (President Fox's party) and Roberto Madrazo from the PRI by about ten points. If AMLO is allowed to compete, he stands a good chance of winning. He already has the major outlines of a campaign in place, including support groups called Citizen Brigades that can organize canvassers and raise funds. Even if these groups are incompletely organized and untested, they may have the opportunity to fine-tune as they protest AMLO's current situation. But the elections are 15 months away and voters could easily tire of the polemics and cascade away from AMLO, especially if his formidable opponents mount an effective media campaign.

If AMLO is not allowed to compete, the PRD's likely candidate would be party founder and three-time presidential loser Cuauhtémoc Cárdenas. It is unlikely that AMLO's popularity would transfer since Cárdenas has proved remarkably adept at alienating non-PRD supporters, and the party itself still polls at only 14%. The PAN and PRI pull about 20% and 24%, respectively, and their presumptive candidates have yet to begin campaigning. So while Cárdenas would have nowhere to go but down, Creel and Madrazo can both move up, making 2006 into a three-way race.

However AMLO-gate is resolved, it points to important issues in Mexico's new democracy. How will the rule of law be defined and its scope expanded? Will democracy yield social equity? Will three party politics inevitably lead to partisan polarization? These tough questions have left many observers wishing that the World Cup or the new Pope were catching the big headlines in Mexico. ■

Kenneth F. Greene (kgreene@mail.la.utexas.edu) is Assistant Professor of Government at the University of Texas at Austin. This year he is a Faculty Fellow at CDATS, Georgetown University, where he is completing a book about opposition party building and democratization in Mexico and other dominant party systems.

The Creation of the Ibero-American General Secretariat and the Implications for Latin America

Carlos Malamud

In November 2002, during the twelfth Ibero-American Summit in Bávaro, Dominican Republic, the then Spanish Prime Minister, José María Aznar, surprised many of his peers by presenting a proposal to create an Ibero-American General Secretariat (SEGIB). The Secretariat's aim was to give a new lease of life to the Ibero-American system, as in previous years it had declined into a state of listlessness and needed a new push to reinvigorate it and enhance its international profile. The proposal was accepted, mainly because it came from Spain, and the majority of participating governments assumed it was not a good idea to contradict the country footing most of the bill.

Aznar's initiative formally inaugurated what Raúl Sanhueza has labelled Spain's "hegemonic unilateral leadership" phase vis-à-vis the Ibero-American Summits. In fact, the change in the direction of Spanish policy began earlier, essentially emerging after September 11 and as a result of Spain's strategic decision to formally combat terrorism within its borders (the Basque Terrorist organisation ETA), as well as internationally. The move was directly related to Aznar's increasingly closer relationship with the Bush Administration and with his decision to favour transatlantic relations with the US over existing relations with the European Union (EU) and Latin America, two of the permanent reference points for Spanish foreign policy.

The main problem with the initiative was not the idea itself, which was a positive development for the survival of the Summits, but the way it was presented to the other Heads of State and Government. It was practically an imposition, since no consensus had previously been sought. Looking back, it is clear that this was not the best way to encourage Latin American countries to see the Ibero-American system as something of their own. The latter is precisely what makes the system vulnerable: if Spain is unable to make Latin Americans feel involved in the Ibero-American Summits, the meetings will serve absolutely no purpose and will do nothing to defend Spain's interests in Latin America.

At the time of the announcement Aznar proposed that Fernando Henrique Cardoso, whose term as President of Brazil was coming to an end, should be entrusted with producing a report on possible themes for the next Summit, which was to be held in 2003 in Santa Cruz de la Sierra, Bolivia. The 'Cardoso Commission', as it was called, bore fruit and Aznar's proposal for the SEGIB was approved, leaving the acceptance of the statutes, functions and responsibilities of the General Secretariat for the fourteenth Summit, to be held in San José de Costa Rica in 2004. While Spain was undergoing a change of government, certain Latin American countries—starting with Cuba, which at the time was involved in serious confrontations with Madrid over the common European policy towards the island—raised objections to the proposal. The outcome was a whittling down of the General Secretariat's political profile. Mexico also sought to cut back initial expectations, as it had

come into conflict with Spain at the United Nations Security Council's discussions over the war in Iraq. Although the change of government in Spain made a difference, it was too late to modify the course of the negotiation, with the result that the statutes finally approved in Costa Rica were somewhat watered down from the original proposals.

The lack of a firm political will to take the Summits beyond what had merely become a forum for grandiose rhetorical declarations, led to the suggestion that Enrique Iglesias, for many years chairman of the Inter-American Development Bank (IADB), would be the ideal candidate to begin a new phase in their history. Although unconfirmed, it is generally assumed that Iglesias will become the next Ibero-American Secretary General once he is appointed at the forthcoming meeting of Foreign Ministers in Lisbon in May. Many consider this a highly suitable appointment, as Iglesias' knowledge of Spain and Portugal as well as of Latin America as a whole should allow him to develop the necessary agenda to boost the Summits' role in the region.

As indicated above, one of the main obstacles for the future of the Summits is the lack of Latin American commitment to the system. This can be clearly seen when looking at the financing of the current Ibero-American Cooperation Secretariat (SECIB), 80% of whose costs are covered by Spain (see Carlos Malamud, 'España y América Latina: el pulso entre lo global y lo bilateral', available at <http://www.realinstitutoelcano.org/documentos/150.asp>). The lack of definition of both the SEGIB and the role it is to play is another possible problem. What should the Summits, and specifically the SEGIB, be? Should they provide a framework for cooperation, for coordination or for integration? Obviously, part of the system's future will depend on the answer to this question.

In some circles doubts have emerged about the SEGIB. There are many academics and analysts who wonder whether the SEGIB was created to compete with the Organization of American States (OAS). It is evident that this is not the way to go. The promotion and revitalization of the Ibero-American system should be based on the defence of its specific characteristics and on its

ability to develop its own unique identity, something that can be attained only if both European Ibero-Americans and American Ibero-Americans adopt the Summits as their own. ■

Carlos Malamud is a Senior Analyst for Latin America at the Real Instituto Elcano and professor of Latin American History at Madrid's Open University (Universidad Nacional de Educación a Distancia, UNED)

Ecuador

After Congress decided to dismiss former President Lucio Gutiérrez on April 20—now living in asylum in Brazil—new President and former Vice President Alfredo Palacio has not yet obtained recognition from the international community. Despite his promise to uphold Ecuador's international commitments, doubts are cast around the legality of the dismissal. So far the government has received only pledges to assist Ecuador in the strengthening of its democracy from the US and the Organization of American States (OAS). An OAS fact-finding delegation arrived in Ecuador on April 26, under the provision of Article 18 of the Inter-American Democratic Charter.

Some suggest that the OAS and the US could recommend the need for an early election. President Palacio, however, stated that his government will finish the current presidential term and will not call an early election. One of his first acts in office was to launch an initiative to develop a new institutional pact in Ecuador by calling for the creation of a Constitutional Assembly. However, he is facing some challenges, including difficulties to form his cabinet. Without the backing of a party he is perceived as weak.

The crisis was originated by the decision to use force to control massive protests in Ecuador with a toll of one death. Under the slogan of "throw them all out", protesters rejected the decision of the Supreme Court—hand-picked by Gutiérrez in December—to drop corruption charges against former presidents Abdalá Bucaram (1996-1997) and Gustavo Noboa (2000-2002). In response, Gutiérrez dismissed the Supreme Court. This action did not prevent him from losing his post: Congress accused him of abandonment of duties and of damaging Ecuadorian democratic institutions.

Barely Squeezing Through? US Politics and the Central American Free Trade Agreement

Eric Jacobstein

In May 2004, US Trade Representative Robert Zoellick joined trade ministers from Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua for the historic signing of the Central American Free Trade Agreement (CAFTA). The agreement—which now also includes the Dominican Republic—offers economic opportunities that come at a crucial time. While the general idea of a CAFTA agreement is broadly supported among policymakers and legislators in the US and Central America, the content of the agreement has been a great source of contention, particularly in the US Congress.

Nearly a year after CAFTA's signing, legislatures in El Salvador, Guatemala and Honduras have approved the agreement, but ratification is still pending in the other CAFTA countries and in the US Congress—the most difficult battleground for CAFTA. Common wisdom has been that CAFTA will likely slide through the US Senate where legislators broadly focus their voting patterns on the concerns of constituents state-wide. However, a recent Senate Finance Committee hearing on CAFTA demonstrated that the US sugar lobby's influence will make the vote in the Senate closer than expected. In the US House of Representatives, legislators have much more specific constituent concerns to keep in mind each time they cast a vote. Furthermore, members of the House of Representatives are likely to follow party lines more closely. The vote on CAFTA in the House will be very close. If the agreement passes it will likely pass by no more than two or three votes.

It is nothing new for trade agreements to be a source of major contention in the US Congress. Free trade creates anxiety among a large sector of the American public who perceive US job loss as directly linked to the signing of free trade agreements. This in turn often makes legislators equally wary.

Even so, while some members of Congress cite job loss as a factor in their opposition to CAFTA, Democratic critics say they support the general idea of a CAFTA accord but point to the negotiated agreement's weak labour standards in rejecting it. The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) has adamantly lobbied against CAFTA and is seen as a principal catalyst behind the decision of Democrats to reject the agreement. In turn, Democrats will vote overwhelmingly against the accord, far more so than they have in other trade votes. On May 27, 2004, the day before CAFTA's signing in Washington, three key Democrats—Representatives Charles Rangel (D-NY), Sander Levin (D-MI) and Xavier Becerra (D-CA)—issued a statement articulating their problems with CAFTA. The legislators said they would reject CAFTA on the grounds that the agreement does not in any way bind member countries to the core labour standards of the International Labour Organization (ILO) but instead simply asks countries to enforce their own labour laws. They found this to be particularly troubling given what they viewed as Central America's dismal labour record. They further argued that the George W. Bush administration's failure to negotiate a bipartisan agreement put "this CAFTA on a midnight train to nowhere". Democratic presidential candidate John Kerry similarly rejected CAFTA in a May 28, 2004 statement, noting his consistent support for free trade agreements but his concern that CAFTA was a "disappointing and unnecessary step backwards in our nation's efforts to ensure that opening markets results in higher living standards on all sides and not a race to the bottom on workers rights and environmental protection".

The intense polarization of politics in the US House of Representatives has become a further obstacle for CAFTA. Democrats are frustrated that the Bush administration and the Republican majority did not sufficiently consult senior Democrats in crafting the CAFTA accord. The administration now needs their votes and more so than with any recent trade vote, Democrats are determined to reject CAFTA.

Beyond the bitterness of partisan politics, much of the trade challenge in Congress can be attributed to the process of redistricting which has made most US congressional districts either safe Democratic or Republican seats. As a result, real electoral contests take place in the primary elections rather than in the elections themselves. Elected officials are thus increasingly beholden to core constituencies who influence their positions on trade agreements. For Democrats, this is organized labour groups like the AFL-CIO while this is often big business for Republicans.

In response to concerns of Democrats and organized labour, members of Congress in favour of the current CAFTA accord have argued that the only way to ensure enhanced workers' rights is through the implementation of the agreement. Furthermore, CAFTA supporters contend that those who cite faulty labour provisions as their primary objection to the agreement simply oppose the current CAFTA labour provisions as pretence to reject free trade more generally. In an October 2004 issue of *ViewPoint Americas* former Representative Cal Dooley (D-CA) and Representative Jerry Weller (R-IL) make this argument in the context of the US–Australia free trade agreement noting that if organized labour rejected an agreement with a country with arguably higher labour standards than the US, there is no reason to believe that they would support CAFTA in any incarnation.

While labour provisions are clearly at the heart of the US political battle over CAFTA's approval, there is more to Democrats' failure to support the agreement. In a March 8, 2005 opinion piece in the *Wall Street Journal*, former Clinton administration officials Stuart Eizenstat and David Marchick elaborate off-the-record Democratic arguments against the accord. The first argument is that a unified Democratic opposition to CAFTA would force House Republicans with close races in 2006 to support CAFTA. This would allow Democrats to gain political leverage from the accord. The second argument is quite simply that CAFTA rhymes with NAFTA [North America Free Trade Agreement] and brings back memories of the battle that President Clinton had to wage within the Democratic Party to get NAFTA approved in the US Congress.

If the passage of CAFTA simply depended on a Republican majority in the House of Representatives, there would be little serious concern about the agreement moving ahead. But while there is a Republican majority, constituent concerns from the sugar and textile sectors have led some Republicans to announce their intention to vote against CAFTA. While the ultimate decisions of legislators may depend more on pressure from the White House than on pressure from their constituents, sugar and textile opposition to CAFTA pose the risk of taking Republican votes away from the agreement. CAFTA would initially allow an extra 109,000 tons of sugar into the US market. While this number is relatively small, the sugar industry's fear—revealed in a recent Senate Finance Committee hearing on CAFTA—is that larger trade deals which would allow for increased sugar imports will be easier to pass if CAFTA goes through.

CAFTA's passage—which is crucial for the Bush administration's global trade policy—is by no means certain. If the Bush administration does not think it has the votes to get the agreement through, the agreement will likely not come to a vote at all in the 109th Congress. The Bush administration is currently completing free trade negotiations with Panama and is in the late stages of negotiations with Colombia, Ecuador and Peru. These negotiations use the CAFTA framework as a base, and the Bush administration will not be able to bring them to the

floor of Congress if CAFTA fails. Rejection of CAFTA would also continue to hold up the overdue Free Trade Area of the Americas (FTAA) and the Doha round.

Nevertheless, the most likely outcome is the passage of CAFTA by a small margin. While constituent concerns are important, so is party politics. Still, a positive outcome on CAFTA will require the Bush administration to spend a great deal of political capital in getting the appropriate votes. This could mean making a number of side deals with members of Congress to get their votes.

In an increasingly polarized political environment, future cliffhangers such as the CAFTA vote will be hard to avoid. The vote on CAFTA will determine the speed at which the US trade agenda moves ahead. Approval of the agreement will mean the negotiation of agreements similar in content to CAFTA while rejection may lead to a reassessment of US trade agreements and could foment the forging of compromises between Democrats and Republicans. More likely, rejection of CAFTA would lead to a general delay in the advancement of hemispheric trade and US trade more broadly. ■

Eric Jacobstein is Manager of Legislative Affairs at the Inter-American Dialogue. He can be reached at ejacobstein@thedialogue.org

OAS

A new election to select the Secretary General of the Organization of American States (OAS) will take place on May 2. The new date was established after the two candidates Chilean José Miguel Insulza and Mexican Luis Ernesto Derbez tied with 17 votes five times on April 11 (Latin News, 04/05). The inability to reach an agreement in April has led some to suggest the need to look for a third candidate acceptable to all member states. This is particularly necessary to bridge divisions created by the election process in order to cope with the challenges facing the OAS (see FOCAL POINT 08/04). Even the US has expressed that although they support Derbez, they will start consultations in the region about the feasibility of a consensus candidacy (Reforma, 26/04/05).

However, neither Insulza nor Derbez have withdrawn their candidacy and both Chile and Mexico are doubling efforts to collect the 18 votes needed to get the post. Derbez has stressed that a consensus candidate should only be sought if he and Insulza tied once again in May. Insulza, instead, has been trying to become himself the consensus candidate. Currently, Paraguay—which voted for Mexico in the first round—has pledged to vote for Insulza insofar he commits to the resolution of the border dispute between Chile and Bolivia. According to the Chilean press, 14 of the 16 members of the CARICOM have expressed their preference towards Insulza. In turn, Mexican Foreign Minister Derbez seems to be confident of having secured 18 votes and has stated that he will remain in the competition until the end (Reforma, 25/04/05).

Cuba's Revaluation(s) of the Peso(s): Back to the Future?

Nicholas Rowe

The Cuban government issues two currencies. The older currency, the Cuban peso, predates the Revolution; the newer currency, commonly called the “convertible peso” was introduced in 1994. It is easier, and less misleading, to call them the “old” peso and the “new” peso. On March 17, 2005 the Cuban government announced an immediate 7% revaluation of the old peso against the new peso. One week later, on March 24, 2005, the Cuban government announced an 8% revaluation of the new peso against the US dollar, to take place on April 9. It also announced that the new peso, previously tied in a fixed exchange rate to the dollar, would henceforth be tied to a basket of foreign currencies.

On the face of it, these decisions were sensible public policy decisions, though less important than they might appear. The traditional sector uses old pesos, Cuban salaries and pensions are paid in old pesos, and rationed goods are bought in old pesos. The tourist and other modern sectors use new pesos, and unrationed goods are bought in new pesos. The 7% revaluation of the old peso against the new peso goes a very small way towards reducing the divide between the old and new economies (full integration of the Cuban economy would require the abolition of one of the two pesos). The 8% revaluation of the new peso merely adjusts for the greater devaluation of the US dollar against other currencies recently. Tourism and remittances are foreign currency earning exports for Cuba, and so are now more expensive measured in dollars, though still less expensive measured in Euros or Canadian dollars than they were a year ago. The decision to fix the exchange rate of the new peso against an (unspecified) basket of foreign currencies, rather than to the dollar alone, is sensible monetary policy for any country which has a big percentage of its trade with countries outside the dollar zone.

These are good reasons for the revaluations of the pesos; but I think the main reason is an attempt by the Cuban government to get hold of the US dollars circulating in Cuba.

It is interesting to focus on the way these decisions were announced. By announcing the revaluation of the new peso in advance, Cubans holding dollars had a very strong incentive to sell their dollars to the Cuban government before the revaluation took place, and they had two weeks to do so. If they had been given advance notice of the revaluation of the old peso against the new peso, Cubans would have sold their new pesos to the Cuban government before the revaluation took place. Why did the Cuban government give advance warning in one case and not the other? The answer is simple: the Cuban government wants US dollars; it does not want new pesos.

It is easy to see why the Cuban government should want Cubans to exchange their dollars for new pesos. At the cost of the paper and ink needed to print the new pesos, the Cuban government gets dollars, which can be used to buy imports, buy foreign interest-bearing securities, or repay foreign currency loans. It is hard to know the precise amount of money involved, but here is a ballpark estimate. Assume that dollars held by Cubans represent 10% of GDP (about one month's income, say), and the Cuban government, given its credit rating, is paying 20% interest on short-term foreign currency loans. Then if the Cuban government can persuade Cubans to part with one half of their dollars, the savings to the Cuban government, by using those dollars to pay off some of its foreign currency loans, would be a permanent 1% of GDP per year.

Since its introduction in 1994, the new peso has been more or less convertible into US dollars at a fixed exchange rate of one-to-one. Hotels, restaurants, and the "dollar stores" for tourists, would all accept new pesos at par with the dollar, so foreign tourists would willingly accept new pesos in *lieu* of dollars. When Cuban citizens were allowed to hold dollars, and to shop in the "dollar stores", they too began to use both new pesos and dollars. The fact that both tourists and Cubans could spend new pesos at par with the dollar in the "dollar stores" meant that anyone would willingly convert new pesos into dollars at very close to par.

In October 2004 the Cuban government stopped accepting dollars in the "dollar stores", and introduced a 10% administrative fee for converting dollars. This made the dollar much less useful as a medium of exchange, compared to the new peso, so Cubans converted dollars into new pesos. The March 2005 announcement of the coming revaluation of the new peso against the dollar, and subsequent announcements of possible future revaluations, further encouraged Cubans to sell dollars for new pesos.

Before October 2004, the willingness of the "dollar stores" to accept new pesos at par with the dollar meant that new pesos were de facto convertible into dollars. The future convertibility of the new peso is less clear. In the rush to convert dollars into new pesos, few have stopped to ask what would happen if, at some time in the future, Cubans might want to reverse direction. But where could Cubans convert their new pesos into foreign currency? Would the Cuban government be willing to give up its foreign currency reserves in exchange for the bits of paper it had previously printed? Would the Cuban government allow foreign tourists to swap their Euros for pesos on the street, thereby depriving the Cuban government of those Euros? It's all

beginning to sound very familiar. Cuba has been down this road before, with the old peso.

The old peso, now revalued to 20 to the US dollar, in 1959 was worth one dollar. It was revalued to above one dollar, after the dollar was devalued against other currencies in the 1970s. The official exchange rate remained fixed for decades, but convertibility became increasingly difficult, as exchange controls were successively tightened. The black or free market exchange rate fell over time, reaching a low in 1995 of about 120 old pesos per dollar, and the official exchange rate became meaningless (except as a way to tax export earnings in traditional sectors). The current 7% revaluation of the old peso pales into insignificance in comparison with past 120-fold devaluations, or even against the six-fold revaluation since 1995.

What is to stop the new peso going the same way as the old peso? Dalia Acosta of IPS (March 25) quotes President Castro as saying that the new peso is fully backed by foreign currency reserves "We're not just printing up bills: every convertible peso has the corresponding backing of foreign currency". It is not possible to verify this. If true, and if the Cuban central bank were committed to converting new pesos into foreign currency on demand, at a fixed rate, then Cuba would be operating a currency board, like Argentina during the 1990s. It would mean that for every new peso put into circulation since 1994 (as cash or in bank accounts), the central bank had resisted the temptation to spend the dollars it received in exchange, and instead had carefully invested those dollars in safe foreign government bonds, earning a couple of percent interest per year, all through the "special period". The temptation to borrow some of those dollars in the central bank, leaving a promise to pay for dollars signed by the Cuban government (arguably a hard currency asset?) must have been very strong. And even if an outside observer were shown a vault somewhere in the central bank, filled with enough dollars and Euros to back all the new pesos currently in circulation, only an independent central bank, free from political interference, could hope to guarantee the sole use of those foreign currency reserves to redeem new pesos.

The Cuban government has a poor history of debt repayment, and yet new lenders, like China and Venezuela, seem willing to believe that the future will be different from the past. The Cuban government also has a poor history of maintaining the value of the old peso, and yet many Cubans seem willing to believe that the new peso will be different from the old. Perhaps President Castro has been permanently converted to the virtues of fiscal conservatism and hard currencies. Or perhaps it's back to the future. ■

Nicholas Rowe is Associate Dean, Faculty of Public Affairs and Management at Carleton University.

Cuba

On April 14 the 61st Session of the United Nations Human Rights Commission, meeting in Geneva, approved a resolution on Cuba, with 21 votes in favour, 17 against and 15 abstentions. The short text consisted of only two points, and was presented by the US and cosponsored by the European Union. This was the first time that the US has itself presented a resolution on Cuba at the Commission.

The first point "invites" the Personal Representative of the High Commissioner for Human Rights, Christine Chanet, to report to the Commission on the current human rights situation in Cuba, according to the guidelines included in the Commission's 16 previous resolutions. The second point, states that the Commission will reconsider the issue at its next session—under agenda item number nine, concerned with human and fundamental rights violations—based on the contents of Chanet's report.

The 21 countries that voted in favour of the resolution were Germany, Saudi Arabia, Armenia, Australia, Canada, South Korea, Costa Rica, the United States, Finland, France, Guatemala, Honduras, Hungary, Ireland, Italy, Japan, Mexico, the Netherlands, the United Kingdom, Romania and the Ukraine.

Those that voted against the resolution were China, Republic of Congo, Egypt, Eritrea, Ethiopia, Guinea, India, Indonesia, Kenya, Malaysia, Nigeria, Qatar, Russia, South Africa, Sudan, Zimbabwe and Cuba itself.

Argentina, Brazil, Burkina Faso, Bhutan, Ecuador, Gabon, Mauritania, Nepal, Pakistan, Paraguay, Peru, the Dominican Republic, Sri Lanka, Swaziland and Togo abstained.

Editorial

Canada's International Policy Statement: What Does it Mean for Latin America and the Caribbean?

John W. Graham

After a year's gestation and numberless drafts, expectations for Canada's International Policy Statement (a.k.a. foreign policy review) were low. Unveiled April 19, it contained a few unsurprising disappointments—principally that the government would not commit to Prime Minister Lester B. Pearson's (1963-1968) goal of 0.7% of GDP for international assistance and frequent disconnects between commitments and resources. However, the package of papers—an Overview and one each for Diplomacy, Development, Defence and Commerce—delivers much needed coherence and a framework for improved interdepartmental collaboration.

For those who toil on Canadian policy in the hemisphere, many of the Statement's recommendations are positive and welcome. To some degree, these sectors correspond to FOCAL's input. FOCAL has been pressing the case that in our hemisphere (more than other regions), Canada has the potential "to make a difference". "To make a difference" is the overall mantra of the International Policy Statement, but there is no recognition of the uniquely favourable applicability of this precept to the hemisphere.

The key Overview paper states that "strengthening Canada's influence in the Western Hemisphere" is a priority and that we must strengthen "our presence in the OAS [Organization of American States] and support greater hemispheric cooperation through the Summit of the Americas process. The same paper reasserts that Canada "will play a leadership role in regional processes [...] to promote security, prosperity and democracy in the hemisphere". (The hemisphere is perhaps the only region where calls for Canadian 'leadership' do not ring hollow). There is a commitment to "strengthen our cooperation with Mexico in these hemispheric bodies on issues of governance and economic growth".

Relations with Brazil, an “emerging economic power” are highlighted.

These themes are echoed in other papers, especially ‘Diplomacy’. This paper notes that “there is surprisingly little research and policy capacity within Canada regarding our neighbours (US and Mexico) and underlines the need to “take steps to promote more sophisticated policy making,” adding that “Foreign Affairs will take steps to address these needs”.

The Commerce paper examines trade and investment opportunities in Latin America and the Caribbean with particular emphasis on Mexico and Brazil. However, some of the text is given over to outdated generalities and little attention is accorded to the magnitude of Canadian investment in the region, which is greater than in Asia.

The Development paper (from the Canadian International Development Agency, CIDA) calls for “intensifying the engagement of civil society as partners [...]” and recommends that “no less than 5%” of R&D should be devoted to a “knowledge based approach to the challenges faced by developing countries”. This paper does not reveal the 25 countries which will be the major recipients of Canadian development assistance (the countries concerned must be informed first), but it is our understanding that five countries within the region are on this list, including Haiti which occupies a ‘fragile state’ category. In fact, the Development paper says less about the Hemisphere than the Overview, Commerce and Diplomacy papers.

However, FOCAL is encouraged that among its central themes, the Development paper emphasizes governance, democracy and civil society, where Canada has the capacity and expertise to play an important role within the Hemisphere. Continued emphasis on these three areas is imperative for Canadian development policy in the region, regardless of the countries selected by CIDA, as demonstrated by recent political crises in Nicaragua and Ecuador.

Overall, FOCAL welcomes the identification of the Western Hemisphere as a priority for Canadian foreign policy and the recognition of the importance that strengthening the Inter-American system and the Summits process has for Canadian influence in the region. Equally strategic is the deepening of bilateral alliances with countries like Brazil, Mexico and the US to fully take advantage of economic opportunities as well as to support sub-regional development processes. Attention to the right balance of multilateral-bilateral policy mix is something that FOCAL has been arguing for some time.

Mexico

Mexican President Vicente Fox accepted on April 27 the resignation of Attorney General Rafael Maceda de la Concha. The President’s decision was prompted by the massive demonstrations in support of Mexico City’s Mayor Andrés Manuel López Obrador. With this, Fox’s government expects to reduce tensions and encourage a political solution that would ensure the mayor’s participation in the federal elections of 2006.

Finally, we see the call for intensifying the engagement of civil society as an extremely positive development. As a knowledge-based organization and active promoters of civil society participation in the OAS and the Summit of the Americas process we are firm believers in the useful policy role that civil society can play and we look forward to continued collaboration in shaping Canadian foreign policy in the Hemisphere.

This said, like puddings, the proof of foreign policy reviews is in the eating. In the past the appetizing appearance of Canada’s foreign policy reviews has proven illusory.■

John W. Graham is the Chair of the FOCAL Board of Directors and was the first head of the Unit for the Promotion of Democracy at the OAS.

Abstracts

Mercosur: A Status Report And Prospects For Canada-Mercosur Relations - Final Report, March 2005

This is a report on the conclusions reached at the FOCAL Roundtable *Mercosur: A Status Report and Prospects for Canada-Mercosur Relations* that took place on March 14, 2005 in Ottawa. Private sector representatives, ambassadors from the Mercosur countries, Canadian officials from several departments and academics representing a variety of policy and research institutes actively participated at the event.

The launching in Ottawa of exploratory trade talks between Canada and Mercosur in February 2005, the creation of the South American Community of Nations in December 2004, and stalled negotiations for a Free Trade Area of the Americas (FTAA) provided a timely opportunity to assess recent developments in Mercosur as well as Canada’s trade strategy in the Americas. The event featured presentations by Ricardo Rozemberg (Executive Director of Centro de Estudios para la Producción), Martin Loken (Director, Regional Trade Policy Division, International Trade Canada) and Tim Plumtre (Chairman of the Canadian Council for the Americas).

The report also draws on a series of activities, meetings and publications on the topic of Mercosur and Canada-Mercosur relations undertaken by FOCAL over 2004-2005. These activities are framed in an ongoing Canada-Mercosur dialogue, launched in 2001 in Ottawa with partners from the Canadian Council for the Americas, the Red Mercosur de Investigaciones Económicas, and York University. For a complete report visit: <http://www.focal.ca/pdf/Mercosur05.pdf>

Upcoming events

FOCAL and the Multilateral Investment Fund (MIF) of the Inter-American Development Bank will host the first meetings in Canada to examine the development impact of remittances and Diaspora linkages between Canada and the Caribbean. The meetings in Toronto (on May 30) and Montreal (on May 31) will present new research on remittance flows, the organization and structure of Caribbean Diaspora communities. A special session will focus on Information Communications Technology usage by the Caribbean Diaspora and its potential to support development in the region. These meetings will be a unique opportunity for Canadian financial services companies, Diaspora organizations and development agencies to invaluable insights and knowledge of work being done in the Americas on remittance issues and Diaspora linkages to development. For more information visit:

http://www.focal.ca/projects/interamericanaffairs/canadianforeignpolicy/events_e.asp

The Canadian Foundation for the Americas (FOCAL) is an independent policy institute based in Ottawa that fosters informed analysis and debate and dialogue on social political and economic issues facing the Americas. We support a greater understanding of these issues in Canada and throughout the region. FOCAL was founded in 1990 and has a full time staff of 12 people. The Board of Directors provides a strategic guidance to the organization and its activities.

The ideas and opinions expressed in this electronic newsletter are those of the authors and do not necessarily reflect those of the Canadian Foundation for the Americas (FOCAL).

To subscribe or unsubscribe to this publication please send an email to: focal@focal.ca.



FOCAL

1, rue Nicholas Street,
Suite/Bureau 720
Ottawa, Ontario
K1N 7B7 Canada

Canadian Foundation for the Americas Tel/Tél : (613) 562-0005
Fondation canadienne pour les Amériques Fax/Télé : (613) 562-2525
Fundación Canadiense para las Américas E-mail/Courriel : focal@focal.ca
Fundação Canadense para as Américas www.focal.ca

Copyright © FOCAL 2005

Who is FOCAL?

Board of Directors

Chair

John Graham, *Consultant*

Vice-Chair

Maureen Appel Molot, *Professor, The Norman Paterson School of International Affairs, Carleton University*

Secretary

Michael Bell, *Consultant, Justice Solutions Inc.*

Treasurer

Anthony M.P. Tattersfield, *Partner, Raymond Chabot Grant Thornton*

Executive Director

Eduardo del Buey, *FOCAL (ex-officio)*

Directors of the Board

Bob Anderson, *former Vice-President Americas, CIDA*
Carmelita Boivin-Cole, *Consultant*

Rt. Hon. Joe Clark, *former Canadian Prime Minister*
Winston Cox, *Deputy Secretary-General, Development Co-operation, Commonwealth Secretariat*

Jean Daudelin, *Assistant Professor, Carleton University*

Paul Durand, *Ambassador & Permanent Representative of Canada to the OAS (ex-officio)*

Kenneth N. Frankel, *Hodgson Russ LLP*

Jennifer L. McCoy, *Associate Professor of Political Science at Georgia State University, and Director of the Americas Program at The Carter Center*

Beatrice Rangel, *President and CEO, AMLA Consulting*
Elizabeth Spehar, *Washington, D.C.*

Brian J.R. Stevenson, *Vice President International, University of Alberta*

Alan J. Stoga, *President, Zemi Communications*

FOCAL Staff

Eduardo del Buey, *Executive Director*

Sharon O'Regan, *Deputy Director (On leave)*

Olga Abizaid, *Analyst*

Nadine Busmann, *Senior Analyst (On leave)*

Laurie Cole, *Inter-American Analyst*

Carlo Dade, *Senior Advisor*

Ana Julia Faya, *Senior Analyst*

Florencia Jubany, *Senior Analyst*

Judy Meltzer, *Senior Analyst (On leave)*

Cristina Warren, *Program Director, Research Forum on Cuba*

Miguel Guardado, *Financial Manager*

Diane Larabie, *Office Manager*

Ron Elliott, *Internships Coordinator*

José Hernández, *Publications Manager/Webmaster*