



IN MEMORIAM Mitchell Sharp P.C., C.C.

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Canada and this institution lost a dear friend, passionate believer, and elder statesman on March 19 with the passing of Mitchell Sharp at the age of 92. Mr. Sharp was generous with his time and support and we at the Canadian Foundation for the Americas (FOCAL) were always honoured by his interest. He was an active member of the Board of Directors from 1997 until his death. The Board and the staff of FOCAL are proud to count ourselves among those who will feel his passing in a personal way. Our sympathies are extended to Mrs. Jeanne d'Arc Sharp and the other members of his family.

This edition is dedicated to the memory of Mitchell Sharp.

NAFTA at Ten: A Mexican View

Gustavo Vega-Cánovas

In the mid-1980s Mexico, like many other developing countries, adopted a growth strategy based on export promotion as a way to surmount the debt crisis that exploded at the beginning of that decade, and recover sustained economic growth. In adopting the new development policy, Mexico implemented an extraordinary program of macro and micro economic reforms which transformed the Mexican economy from one model, which was highly protected with a pervasive participation of the state, to another, which was wide open to the international market and where initiative was transferred to the private sector. In the 1990s Mexico also negotiated a series of free trade agreements, the most important of which was the North American Free Trade Agreement (NAFTA). Mexico pursued a free trade agreement with the U.S. and Canada to promote and secure access to its most important market and to deepen its relationship with one of the most dynamic of the G-7 group of countries. In addition, it was expected that integrating with two rich countries like the U.S. and Canada would yield benefits beyond trade efficiency because it would also stimulate direct foreign investment and encourage technology transfer. Given the lack of domestic savings and high level of foreign indebtedness, foreign capital became an indispensable financial resource for Mexico's productive activities.

In this article, I analyze the impact of NAFTA on the Mexican economy. I argue that North American trade and investment has expanded at the upper limits of the

expectations that existed when the Canada-U.S. Free Trade Agreement (CUSTA) was signed in 1989, or when NAFTA itself was ratified in 1993. However, *commercial* success does not mean that everyone in Mexico has prospered. Mexicans were devastated by the peso crisis of 1994/95, and many Mexicans have seen no increase in their real wages in over a decade. But trade agreements cannot, and should not be held responsible for all manner of financial and structural shortcomings that slow down (or even reverse) economic progress. Within a narrow commercial sphere, NAFTA has succeeded beyond the expectations of its advocates.

NAFTA: A Commercial and Investment Success

There is no doubt that during the 1990s and early 2000s, Mexico's trade was one of the main engines of its economic growth. Export activity currently accounts for half of Mexico's GDP growth and almost one third of its overall GDP. Mexico has become the 13th largest trading nation in the world and the first in Latin America. The bulk of these exports are manufactured products, which represent more than 85% of Mexico's total exports. Exports of goods and services jumped from 19.4% of GDP in 1985 to 32.8% in 2000. Employment in manufacturing, not having grown for 15 years before NAFTA, grew 2.5% per year afterwards, until it was interrupted in 2001 by the US recession and the impact of September eleven.

NAFTA has been a key factor in the remarkable increase of Mexico's trade and in the trade flows among the United States, Mexico and Canada. Since NAFTA went into effect, trade flows between the partners have experienced tremendous growth, surpassing the most optimistic predictions of free trade proponents. Between 1993 and 2003, trade in the NAFTA region grew at an annual rate of 12.5 percent, a rate substantially higher than the average annual growth rate for world trade (8 percent).

In the case of Mexico and the United States, two-way trade boomed at an average annual growth rate of 17 percent, tripling between 1993 and 2002, rising from \$85.5 billion to \$240.7 billion, and growing from 34 percent of Mexican GDP (measured at market exchange rates) to 63 percent. Mexican products increased their share in the U.S. import market from less than 7 percent in 1993 to 11.2 percent in 2000, and Mexico displaced Japan as the second largest export market for the United States.

Mexico-Canada trade has also increased under NAFTA, despite the geographic distance and limited historic ties. In 2000, seven years after implementation, Canada-Mexico two-way trade reached \$12 billion, up from \$4 billion in 1993. Mexico has become Canada's main trading partner in Latin America and its third leading supplier worldwide. Likewise, Canada has become Mexico's fourth trading partner after the United States, Japan and the European Union. While bilateral trade numbers are small when compared to bilateral trade with the United States, the Canada-Mexico trade link has the potential for sharp expansion.

As for investment flows, Canada, Mexico and the United States all received sizable FDI flows between 1989 and 2001, but there is a striking contrast between *intra*-NAFTA flows in the pre-NAFTA and post-NAFTA periods. Total FDI flows between the three countries totalled \$63 billion between 1989-1994; but after NAFTA went into effect, during the period 1995-2001, total flows increased to \$202 billion, more than tripling in dollar volume. FDI flows into the NAFTA region from non-NAFTA countries also increased in the post-NAFTA period, but not as dramatically. Particularly, in the case of Mexico, nearly all the FDI growth was from NAFTA partners. Foreign direct investment, which was at an average of \$4.6bn per year during 1989-94, almost trebled to \$11.8bn during 1996-2000, and reached a peak of \$27.7bn in 2001. This growth in intra-regional FDI occurred in tandem with the tremendous expansion of intra-regional trade. The obvious and well-known conclusion is that NAFTA accelerated the rationalization of North American production facilities, especially in highly integrated sectors like autos, computers, chemicals and pharmaceutical products.

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The connection between trade liberalization and investment growth is illustrated by three sectors where commercial ties have been most extensive: the automotive industry, textiles and clothing, and the electronics industry. In these three sectors, deeper integration is clearly evident between the three

Mexico

A series of scandals revealing corruption and mismanagement of funds have damaged the popularity of some of the most important political parties and figures in Mexico (Terra/AP, 17/03/04). The first scandal was unleashed by a video aired during the last week of February that appeared to show Jorge Emilio Gonzalez Martinez, Senator and national leader of the Green Party (PVEM), receiving a bribe of \$2 million dollars from a businessman in exchange for construction permits in tourist areas. An investigation has begun, but as of March 18, Gonzalez had not responded to requests for testimony (El Norte, 18/03/04). The scandal has discredited the party, which in the past, has alternatively allied with both of the major parties, the National Action Party (PAN) and the Revolutionary Institutional Party (PRI).

Shortly after the PVEM scandal was revealed, two more videos were publicly aired. This time the party involved was the Party of the Democratic Revolution (PRD), the third largest at the national level. One video showed René Bejarano, a local deputy of the Mexico City Congress apparently receiving money from businessman Carlos Ahumada in what has been alleged to be illegal campaign funding. The second exposed René Ponce, who until this month was Finance Minister in the Mexico City municipal government, apparently gambling large amounts of money in Las Vegas, United States. Evidence of his frequent trips to this destination have led to accusations of mismanagement of public funds (El Norte, 15/03/04).

The PRD scandal has also soiled the image of two of the party's most prominent politicians. Rosario Robles, party leader until 2003 and major of Mexico City from 1997-2000, has been implicated in the illegal acts. At a full meeting of the PRD's national council, the delegates endorsed a decision to suspend Robles (Mexico & NAFTA Report, 19/03/04). In addition, René Bejarano and René Ponce, were respectively the former private secretary, and finance minister to Andrés Manuel López Obrador, the popular major of Mexico City and possible candidate for the 2006 presidential election. López Obrador has rejected any links to, or knowledge of these acts.

Related to the political turmoil and scandals that have erupted in the last two months (see FOCAL POINT February 2004), the Minister of Interior presented an initiative to reform the Electoral Law to the Mexican Congress on March 22. The reforms aim to render election financing more transparent by revealing the identity of donors and setting ceilings on campaign spending. The time period during which campaigning is permitted will also be regulated (Milenio, 19/03/04).

economies. Canadian, Mexican and U.S. firms have relocated their production facilities, repositioned their supply patterns throughout the region, and have used mergers and acquisitions across North America to strengthen their competitive stance. The reward has been higher productivity generally, and a new role for Mexico in particular. Within Mexico, NAFTA has encouraged the manufacture of more sophisticated automotive, textile and clothing, and electronic products -- going beyond mere assembly -- with significant research and development work now conducted in the country.

The Agriculture sector

Unlike the manufacturing sector, NAFTA has had very different effects on a two-tier agricultural sector where a booming agribusiness sector coexists with a subsistence, backwards, and traditional sector. While the first has been able to increase its exports as a result of improved market access into the U.S. and Canada, the latter has been unable to take advantage of the benefits that NAFTA has provided in terms of investment and increased production.

One sector causing acute problems for Mexico is corn (maize), because, to a significant degree producers are the many small, traditional, subsistence farmers, who combine small-scale corn production with other farm products in a tradition going back centuries. In contrast to general expectations at the time that the NAFTA was negotiated, displacement of domestic produce by cheaper imports of grain and beef from North America has not resulted in farmers finding employment in other activities. At one extreme, the result has been increased migration of poor peasants to the north and abandonment of land. At the other, small farmers continue to produce for their own consumption, but at the same time earn less income for the produce they sell in the market, thus remaining very poor.

Another sector unable to sell all of its production in Mexico or abroad is the sugar industry. This problem has been illustrated by the bankruptcy of many sugar mills and the financial rescue of 27 of the 49 Mexican mills by the government in 2001, after years of continued losses.

There is no doubt that bad trade performance in agriculture has had profound social and political implications in Mexico, as more frequent public demonstrations by disaffected workers have demonstrated - leading the Fox government to rescue sugar mills and to provide greater financial support to corn producers. As a result, the Federal budget has become burdened with a high growth in subsidies.

Trade and Investment Disputes

Besides promoting trade and investment, a final important objective in NAFTA was to create effective procedures for settling disputes. Since the NAFTA partners carry out one of the busiest trade relations in the world, it was to be expected that numerous disputes would arise as NAFTA was implemented. This expectation has not been wrong.

Have the new mechanisms created in NAFTA Chapters 11 (Investment), 14 (Financial Services), 19 (Anti-Dumping and Countervailing Measures) and 20 (State to State Dispute Settlement) helped the management of Canada-Mexico-U.S. relations? The answer has to be positive. Dozens of difficult issues have been resolved under the auspices of high-quality dispute settlement panels which, except in a very few cases, have not split along national lines. The application of clear rules within a set of binding procedures has ensured equality of standing among the three parties. Agreed rules, not power politics, determine outcomes.

Three high-profile exceptions have received a lot of media attention: the continuing saga of softwood lumber (pitting the United States against Canada), trucking (pitting the United States against Mexico), and sugar and high fructose corn syrup (pitting Mexico against the United States and *vice versa*). The Chapter 11 Methanex case can be added to the list, thanks in part to a Bill Moyers TV show on PBS in 2002. But these cases are the exception, not the norm. Eventually they too will be resolved given the mutual interest of the NAFTA partners in maintaining robust trade and investment relations.

Commercial Success did not Benefit Everyone

While NAFTA has been a huge commercial success, it did not, and could not, bring universal prosperity to Mexico. Mexico experienced, in 1994-1995, one of its worst economic crises since the great Depression. This crisis cannot be blamed on NAFTA, but rather on a combination of adverse political factors, unsound financial practices, and mismanaged monetary policy. From the perspective of this article, the important observation is that recovery from the 1994-1995 peso crash was remarkably fast compared to the 1982 debt default and devaluation. The difference can largely be attributed to the existence of NAFTA.

In 1982, Mexico's immediate response to the debt crisis was to drastically slash imports, building a protective fortress through stringent import quotas and prohibitive tariffs. Mexican imports fell by more than 50 percent, from \$24 billion in 1981 to only \$9 billion in 1983. It took Mexico seven years to get back to pre-crisis import levels. After the 1994-1995 peso crisis, by contrast, Mexico's membership in NAFTA did two things: it fostered a quick and ample financial rescue package, led by President Clinton; and it

guaranteed continuity of Mexico's trade policy, led by President Zedillo. Mexico actually accelerated its liberalization program, and pre-crisis import levels were restored in approximately 18 months. While macroeconomic stabilization was the immediate task, it can be argued that the increased openness of the economy facilitated a fast recovery. Measured by the trade to GDP ratio, the openness of the Mexican economy increased from 38 percent in 1993 to 62 percent in 1998. Structural reforms in the wake of the crisis also speeded the recovery - further liberalization of the foreign investment regime, reforms in the social security system and the banking sector, and additional privatizations (WTO, 1997).

Another revealing indicator is industrial production. After the 1982 debt crisis, it took Mexico about 9 years to get back to its pre-crisis level of industrial output; in contrast, after the 1994-1995 crash, it took Mexico less than two years to recover 1994 output levels.

Mexican employment declined by more than 4 percent in 1995, but between August 1995 and August 2001, the Mexican economy generated 2 million new jobs. Around a million of these were related directly or indirectly to export activity. In 2001 the combination of US recession and a strong peso exchange rate led some multinational firms in manufacturing to close down operations for the first time in many years, blaming high labor costs. This trend has continued. Likewise, in the last two years, one million jobs were lost for lack of economic growth.

In terms of wages, while export growth has exerted a positive impact, the majority of Mexican workers have not seen an increase in real wages in over a decade. Mexico's dual economy excludes the majority of people from highly productive jobs. A perennial problem is the lack of credit to finance plant expansion and modernization by small business firms - even those involved in export activities.

To conclude the commercial story: NAFTA has boosted North American trade and investment to a remarkable extent. Yet, Mexico faced economic difficulties in the 1990s and is experiencing slow growth at the present time for

The US-Central America Free-Trade Agreement

Isaac Cohen

lack of significant structural reforms in the fiscal, energy, infrastructural and telecommunications sectors, for which consensus has not been forthcoming among major political forces and for which international negotiations have little to contribute directly. At best, a solid trade and investment agreement, such as NAFTA, can enable a country to reach its economic potential, taking into account embedded constraints. When countries face shocks as Mexico did in the mid-1990s, a solid agreement can help guide constructive responses, both by the country and by its partners. Within these spheres, NAFTA succeeded far beyond the expectations of its advocates. ■

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FTAA

At the November 2003 Miami Free Trade Area of the Americas (FTAA) Ministerial Meeting, the 34 participating countries issued a Declaration that laid out the bare skeleton of an agreement that was vastly different from the breadth and scope envisaged when the formal negotiations were launched at the Santiago Summit of the Americas in 1998.

The Miami Declaration envisaged a plurilateral type of agreement in which countries could take on differing levels of obligations across a range of subject areas. The Trade Ministers assigned to the Trade Negotiations Committee (TNC) the task of filling in the structural and substantive details. However, the work of individual negotiating groups had been suspended until appropriate guidance was received from the TNC. To fill its mandate of providing guidance, the TNC met in Puebla, Mexico, from February 2 to 6, 2004, but was unable to reach a consensus and the meeting was therefore "recessed." The meeting was then supposed to reconvene on March 18 and 19 and to this end selected countries met in Buenos Aires on March 9 and 10. However, following the Buenos Aires meeting, the US and Brazilian co-chairs announced yet another postponement of the TNC.

According to a press release issued by the Caribbean Regional Negotiating Machinery (CRNM) on March 22 a second informal meeting will again take place in Buenos Aires on March 31 to April 1 to lay the groundwork for a resumption of the TNC meeting in Puebla, on April 22-23. If the TNC does in fact reconvene and is able to generate a consensus on the structure of the agreement, it will have done so a full 5 months after the Ministers met in Miami and only 8 months before the formal deadline for the completion of the FTAA negotiations. To date, all the parties have paid lip service to the formal deadline but it is interesting to note that the CRNM press release bears the title: "Stalled Talks: FTAA Deadline in Doubt."

In January, the United States and five Central American governments—Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua—announced the successful conclusion of free trade negotiations. Among others, this event raises three questions: why these very small economies decided to negotiate a free trade agreement with the biggest and most powerful economy in the world; why now; and what are some lessons that can be drawn from this experience.

For small economies, the main reason to engage in free trade negotiations is to overcome the limitations that the smallness of the internal market imposes on their growth and development. Since the early 1950s, the United Nations Economic Commission for Latin America (ECLAC) has pointed out that Central America is confronted with the challenge of achieving economies of scale (ECLAC, "Informe preliminar sobre integración y reciprocidad en Centroamérica", 1952). Negotiating a US-Central America Free-Trade Agreement (CAFTA) helps Central America to both widen and deepen domestic markets, thus making them more attractive to foreign investment.

The reason why these negotiations are taking place now is because, in historical terms, the United States has refrained from entering into regional or sub-regional processes of trade liberalization. The first exception to this policy was the US decision to sign a free trade agreement – largely for strategic reasons – with Israel in 1985. A year later, in 1986, the US and Canada began negotiations on a bilateral agreement which went into effect in 1989. Two years later, Canada, Mexico and the United States started negotiations to create what became the North American Free Trade Agreement (NAFTA).

Only after President Bush gained Trade Promotion Authority from the US Congress in 2002, has the US concluded a number of agreements with countries such as Chile, Singapore and Australia.

The policy of bilateral free trade agreements, being conceived as building blocks in the process of global trade liberalization has been, most recently, characterized by the United States Trade Representative, Robert Zoellick, as one of “competitive liberalization” (Zoellick, *The Wall Street Journal*, 10/07/03).

This flurry of negotiations has generated some acute criticism. One of the most intense has come from Columbia University Professor Jagdish Baghwati. In testimony, last year, to the United States House of Representatives, Professor Bhagwati claimed that it is among politicians that there is a preference for bilateral free trade agreements, while “a vast majority of economists consider them a plague on the world trading system” (Baghwati, Testimony, US House of Representatives, Subcommittee on Domestic and International Monetary Policy, Trade and Technology, 2003).

Some lessons can be drawn from the way the CAFTA negotiations took place. They represent the very first time that the five Central American governments have negotiated an agreement that will be enforced multilaterally, rather than bilaterally. Other free trade agreements negotiated recently by the Central American governments will be enforced separately, by each individual government. Moreover, despite some bumps in the road, the CAFTA negotiations were conducted with an unprecedented degree of Central American cohesion.

For the Central American economies, the United States is the main trading partner, representing an average of half of all their international trade, and their main source of foreign direct investment. Furthermore, almost 75 percent of all Central American exports to the United States already enjoy duty free access, on account of the preferences unilaterally granted originally under the Caribbean Basin Initiative (CBI). By contrast, trade relations among the Central American countries represent around one third of their total foreign trade.

A free trade agreement between the United States and Central America will institutionalize and therefore make more stable the rules that govern the most significant, already intense and profound Central American trading relationship.

The sum of imports and exports between the United States and Central America amounted in 2002 to more than US \$20 billion. Separately, the five Central American countries ranked between 31 and 69 among markets for US exports. Together, Central America climbs to rank 17, between Malaysia and Switzerland, among markets for US exports.

Another important lesson which can be drawn from the CAFTA negotiations has to do with the compatibility of the Central American economic integration process, which has existed for almost half a century, with the free trade agreement with the United States.

The process of Central American economic integration needs to be adapted and upgraded to make it compatible with the potential widening and deepening of the relationship with the United States. Otherwise, the danger exists that, as a consequence of the negotiation with the United States, intra-Central American relations may become rarefied, as relations with the United States intensify.

Several issues demand attention within the Central American integration process. First and foremost is the still incomplete Central American common external tariff. Second, both the CAFTA and the Central American dispute settlement procedures should coexist harmoniously, serving as mechanisms for solving those disputes that will emerge between the Central American governments themselves and those with the United States. Finally, to upgrade their mutual relations, perhaps the Central American governments can agree on a general principle, whereby they are willing to extend to each other the same concessions that they will grant to the United States.■

Isaac Cohen is former Director of the Washington office of the UN Economic Commission for Latin America and the Caribbean.

***Concertación* - El Salvador's Post-Election Challenge**

Celia Medrano

Two days prior to the presidential elections, only a few dared to predict which political party would assume the Salvadoran presidency for the next 5 years. This did not come as a surprise, given the difficulties that the main polling firms have had in the last 3 months in capturing with accuracy the preferences of the electorate, which have swayed significantly between the major opposition party, *Frente Farabundo Martí para la Liberación Nacional* (FMLN), and the official governing party, *Alianza Republicana Nacionalista* (ARENA).

The FMLN consists of former members of the Salvadoran guerrilla, which splintered into several factions after the peace accords were signed in 1992. The recent political ascendancy of the FMLN is currently reflected in the fact that it holds the majority of seats in Congress and controls a significant number of municipalities, including the capital city of San Salvador. ARENA, on the other hand, is enduring the consequences of 15 years of consecutive governments, an economic policy that has

brought with it high social costs, various corruption scandals involving government officials and the allegations of being linked to the military during the armed conflict.

The months of the electoral campaign were marked by incidents of violence and religious intolerance, the most notorious of which were the assassination of José Alexander Castro (an activist for ARENA) and the hospitalization of Obdulio Trigueros (a FMLN militant). Other violent incidents included the destruction of political parties headquarters, threats against candidates, and mutual accusations of corruption, tax evasion, participation in criminal acts and violation of human rights, such as kidnapping and massacres. As a result, opposition parties introduced a proposal in Congress that would prohibit people from carrying firearms before, during and after elections. These violent acts and the constant confrontation between opponents created an environment of insecurity and distrust, not only in relation to the electoral process, but also in terms of the reliability of the candidates, regardless of their ideological background.

The inefficiency of the institutions responsible for securing a transparent and respectful electoral process has also become evident. The *Tribunal Supremo Electoral* (TSE), for instance, has been incapable of preventing abuses and infractions of the electoral law by political parties. Such problems will be inevitable as long as the members of the TSE continue to be appointed by the same political parties.

The two major parties, ARENA and the FMLN, will face on March 21, though other smaller parties, namely the coalition of the *Centro Democrático Unido*

(CDU) and the *Partido Demócrata Cristiano* (PDC), and the *Partido de Conciliación Nacional* (PCN), will also be contending the elections. Small parties have tried to take advantage of the weaknesses of the major parties, but estimates suggest that they will scarcely be able to obtain a minimum of percentage of votes required by the law, to remain official parties. This situation reflects the political polarization that exists in the country.

The tendency among the 3 million 442 thousand voters is to leave aside any intermediate option and decide between the two political extremes that have totally different platforms. In this case, the two extremes are former commander Schafik Handal, historical leader of the Salvadoran communist party, and Antonio Saca, who is better known for being a sports commentator rather than a politician, but who has a public image that seems to represent a new era and renovation for ARENA.

Regardless of whether the FMLN or ARENA win the elections, one thing is clear: both will have strong opposition and political resistance during their administration, which could make managing the pressing needs of the country difficult, given that solutions are needed rather than promises and propaganda.

Even though in December 2003, 41 percent of the population said they mistrusted political parties and another 37.9 percent had little confidence in them, more than 55 percent of those eligible to vote expressed willingness to exercise that right in the upcoming elections. This is something that has never been achieved in El Salvador and which could end the marked absenteeism of previous elections. According to the *Movimiento Pro Reforma*, which conducted the December 2003 poll, the projected high turnout is a result of the fact that the population is politically conscious that the country has problems and regards participation as a means of change even if political parties are distrusted.

Whoever wins the elections will face the expectations of 6 million 638 thousand 168 Salvadorans, who expect the new president to solve their needs. According to the latest report of the United Nations Development Program

El Salvador - Elections

El Salvador Election Results, 21 March 2004

Elected

President: Antonio (Tony) Elías Saca

Vice-President: Ana Vilma de Escobar

Party/ Coalition	# Votes	% of Vote
ARENA	1,190,235	57.73
FMLN	734,469	35.63
CDU-PDC	80,592	3.91
PCN	56,289	2.73

Source Tribunal Supremo Electoral, El Salvador, 26/03/04.

(UNDP), 50 percent of the population lives under conditions of poverty and extreme poverty with the majority concentrated in rural zones and who depend on agricultural activities for subsistence – a sector that lacks the support needed to reactivate itself. To meet the demands for employment, reduction of the high-costs of living, increase in personal security, education, health, improvement of the economy and housing, the new president will have a budget, at least for its first year of administration, which was defined by its predecessor and which has yet to be approved by Congress as a result of partisan differences that could deepen with the electoral results.

The new president may also ask for a revision of the Central America-United States Free Trade Agreement (CAFTA), which the government of Francisco Flores signed in December 2003 and which is awaiting ratification by Congress. The decision on this particular subject and the confirmation or reversion of the *dolarization* process initiated in 2001 will mark whether the new administration follows or turns away from the economic policies that have been implemented over the last decades. Two other issues that could also reveal differences between the old and new administration, which will be inaugurated in June 2004, are the pending approval of a law against youth gangs (*ley anti-maras*) and the ratification of the participation of Salvadoran troops in Iraq as part of the “Plus Ultra” Brigade, which is led by Spain and the United States.

The so-called “anti-gang” law (*ley anti-maras*) has been questioned from a legal and human rights perspective, particularly by the Inter-American Commission for Human Rights (CIDH), and because of its connections to the anti-terrorist policies dictated by the United States since the events of September 11, 2001. However, the approval rating of President Flores increased to over 50 percent of the population when this initiative seemed to offer an immediate increase in personal security. On the other hand, the support of El Salvador in the occupation of Iraq has been one of the most controversial issues in the country, and may be revisited as a result of the victory of the Spanish socialist party in Spain and the decreasing popularity of President Bush in the United States – also caught in an electoral dynamic.

Both, the FMLN and ARENA, have highlighted different ways of addressing these situations and the various problems that afflict the country. Some of these approaches are totally opposed. However, it is simplistic to think that Antonio Saca would represent continuity or that Schafik Handal guarantees radical changes, particularly in the short and medium term. The scenarios are more complex than that. Both political parties have promised more than they are capable of delivering and a great deal of these promises are based on an electoral campaign geared to winning votes rather than based on an analysis of real possibilities that merit attention.

Such complicated solutions to national problems can only be achieved through an accord, or *concertación* (unity), among different political and social sectors - and the first step should be taken at the executive level. Certainly, the outgoing government of President Francisco Flores was characterized by a lack of a *cooperative attitude* with the legislative and

judicial powers, the mass media and social sectors. During the Flores administration, for instance, 52 presidential vetoes were applied against legislation approved by Congress – a record figure never before achieved. 17 of these vetoes occurred in 2003, after the FMLN assumed the majority of seats in Congress. The continuity of these practices will only lead to greater polarization and stagnation.

It appears that the two leading parties understand this situation and have indicated that these problems need to be overcome. The campaign manager for ARENA, businessman Roberto Murray Meza, has talked of forming a grand coalition, and the FMLN has formed a committee to select its cabinet from recognized independent professionals. Nevertheless, it remains to be seen whether these signals constitute a true political will or if they were proposed simply to gain more political support for the upcoming elections.

Therefore, the most important post-election challenge for El Salvador will be *concertación* in order to guarantee governability and democracy. Democracy in El Salvador is not something to be celebrated every 5 years when elections are held; but rather it should be a way of life - a daily practice that includes all sectors of society building a common future in the smallest country of the Americas.■

Celia Medrano is a journalist and a consultant with post-graduate studies in human rights. She has been on the board of the Human Rights Commission of El Salvador (CDHES) and the Consultative Council of the System of Central American Integration (CC/SICA). From 2000 to 2002, Ms. Medrano was the general coordinator of the Commission for the Defence of Human Rights in Central America (CODEHUCA).



Rebuilding Haiti: The Test for Canada

Carlo Dade

Building a vibrant economy and democracy in Haiti is an eminently possible project for Haitians and the Americas. It is also a project that is in Canada's interest and one for which Canada is uniquely suited to take a leadership role.

That any type of development is possible in Haiti seems quixotic given the history of failure resulting most spectacularly in the Aristide-era meltdown of the economy, and destruction of political institutions and civil discourse. This has led to donor fatigue and popular consensus that Haiti is hopeless. While the former is inexcusable the later view is misinformed by failure to take into account Haiti's unique history, culture and relationship within the Americas. On one level we understand that Haiti is the poorest and arguably the most politically troubled country in the Americas, yet we proceed from that point without understanding how this situation arose. In the case of Haiti, this context is vital to understanding the current situation and to finding a way forward.

One half of the population was killed in the Haitian war of independence. In an era when human capital, not oil, was the motor of economic development this loss was devastating. This setback was made worse when, rather than being welcomed into the community of free nations, independent Haiti was treated as a pariah-state and an economic embargo was imposed. In a hemisphere where over half the population was of African descent and living in slavery and where slave rebellions were a constant threat; a free-slave state, the result of a successful rebellion, was a real and immediate threat to European and U.S. interests. Both responded with economic blockades and invasion threats that led to the starvation of the economy, onerous defence spending and the militarization of Haitian society. The embargo included the Catholic Church, and when the Church withdrew, it took Haiti's educational system with it. The economic embargo was not lifted until over thirty years after independence when Haiti paid reparations of 150 million gold francs to France for losses suffered by French citizens during the war of independence. This was the nail in the economic coffin. The irony is that this is the only case of a country paying reparations related to slavery in the Americas. Its Latin American neighbours did not treat Haiti better. Despite *twice* having given refuge and assistance to Simon Bolivar, the great liberator of the Americas, Haiti was uninvited from the Congress of American States, the first region-wide meeting of independent states held in Panama in 1826.

The experiment of a free black republic in the Americas effectively ended with the first U.S. invasion of 1915-34. Twenty-three years later François "Papa Doc" Duvalier became President and seven years later declared himself President-for-Life. Prior to Duvalier, Haiti had experienced 102 revolts, wars or coups, only one of the country's 22 presidents served a complete term and only four died of natural causes. Under the eye of the U.S. for thirty-one years Papa Doc, and later, son Jean-Claude "Baby Doc" Duvalier ruled through corruption, intimidation, disappearances, and repression. While this type of

regime was not unique in the Americas at this time, nonetheless the impact of dictatorship was arguably more damaging in Haiti given its history. Foreign intervention to end the Duvalier regime was not accompanied by investments in reconstruction and the result was another series of coups, massacres, and a refugee exodus ending in the elections of 1990, which brought Jean-Bertrand Aristide briefly to power, before he was deposed by General Raul Cédras. Eventually, the U.S. was forced to restore Aristide in 1994. But the subsequent election of George Bush in 2000 brought a U.S. government personally antagonistic toward Aristide and his successor René Préval. When Aristide returned to power in problematic, but not completely fraudulent elections in 1996, the administration in Washington actively worked to undermine the Haitian government, -in this they were aided by Aristide who was increasingly corrupt and demagogic. The result was political stalemate between Aristide and the U.S.-funded opposition, the freezing of foreign aid and subsequent meltdown of the economy. All of this happened at a time when other nations in the Americas were engaging in political and economic reforms, attracting foreign investment, and seeing peaceful transfers of power.

This is how a country arrives at the bottom of the Human Development Index and now appears as an ungovernable mess. Obviously, this history has left deep political, economic and cultural scars that are apparent not only in the economy and political structure but also in the interaction that Haiti has with countries of the region and multilateral organizations. Haitians see interventions by the United States and Europe through the historic prism of racism, invasion, occupation and sanctions of the past. This view extends to multilateral organizations like the Organization of American States and to Haiti's Latin American neighbours. For example, in the late 1990s Haiti and the Caribbean states refused to attend an OAS meeting held in Panama at the site of the 1826 Congress of American States because of the snub to Haiti that had occurred 170 years before. Clearly the past weighs heavily upon the present in Haiti.

Canada, like the Caribbean, enjoys a similar benign history with Haiti and this creates space

for Canada to play a stronger role. Furthermore, Haiti is a country of interest to Canada given the links of language, culture, family and geography. Canada has the largest francophone population in the Americas, over 100,000 Canadians are of Haitian descent, and it has the resources, *capacity* and institutions that can contribute to the development of Haiti. Yet, it is perplexing that Canada has not played a more active and activist role in Haiti. True, Canada has spent over CAN \$600 million in Haiti, but money does not equate with leadership.

How can Canada make a difference in Haiti?

The first step is to *get serious* about Haiti. Haiti has more deeply entrenched economic and political issues than any other country in the region and therefore requires a separate, coordinated and concentrated focus for political and economic engagement. Rethinking engagement and development models in Haiti to focus on *long-term* development issues and not upon short-term domestic policy considerations is crucial. The immediate response to post-Aristide Haiti by the Paul Martin government has been to throw more money at tried and failed initiatives. The March 18 announcement of a CAN\$ 1 million grant to the Organization of *La Francophonie* for initiatives to restore and maintain Haiti's democratic institutions is an example. This is political expediency and not a serious response to the crisis. Business as usual will not cut it in Haiti and falls well short of what Canada can offer.

Canada should *take leadership* on Haiti. Canada is the only donor with the combination of national interest, benign history and resource capabilities to

lead international efforts on Haiti. Canada cannot engage alone and certainly cannot shoulder the development assistance burden. But, Canada can take the burden of leadership and should begin by reaching out to the United States, which given its focus on Afghanistan and Iraq would welcome Canadian leadership.

Getting development right in Haiti requires an open and critical analysis of past interventions in Haiti and elsewhere as well as openness to *innovation, creativity and new ideas*. Recent lessons on involving the diaspora in reconstruction learned in Afghanistan, lessons on nation-building learned in the Balkans, and the new focus on institution-building learned from the limited successes of neo-liberal reform are all examples of how Haiti can become a model for "doing development right."

There are reasons to be hopeful about Haiti. There is an emerging a consensus in Washington, New York and Brussels that enough is enough and now is the time to do whatever it takes to move Haiti onto the path of sustainable development and political stability. On the economic side there is room for hope as the 2003 World Trade Organization (WTO) Trade Policy Review on Haiti, concluded that the country has "one of the most liberal economies in Latin America and the Caribbean today."

Haiti will be the test for a new Canadian foreign policy. If Canada cannot take leadership in a francophone, Caribbean neighbour where it has strong ties and positive historic links then when and where can Canada play a constructive role in the world? It seems that Prime Minister Paul Martin was prescient and could have been referring to Haiti in April 2003, when, in a speech at the Canadian Press Dinner in Toronto he laid out his vision for a new Canadian foreign policy:

"Now is the time to assert Canada's role in the world. To show leadership with clear positions, clearly explained. To apply ourselves constructively in areas where we know we can make a difference" (www.paulmartintimes.ca).■

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Canada

On March 23, the Paul Martin government handed down its first federal budget. The budget demonstrated fiscal restraint and continued with many of the same priorities of the John Manley (former Minister of Finance) budget released last year. The Department of Foreign Affairs did not receive any additional resources with which to boost its already thinly stretched presence in Latin America or elsewhere, and Africa rightly remained the priority in Canadian development spending. Additional commitments were made to support certain Middle Eastern countries considered strategic for the US-Canadian relationship including debt forgiveness for Iraq which could amount to approximately \$CAN 750 million over an additional \$CAN 300 million commitment to reconstruction and humanitarian assistance in this country, as well as \$CAN 250 million in assistance over five years to Afghanistan. In the Americas, \$CAN 50 million was allocated to support the Canadian military in its peacekeeping role in Haiti, and Guyana received debt relief under the Heavily Indebted Poor Countries Initiative (HIPC) with the cancellation of loans owed to Canada worth \$CAN 1.8 million. The Martin government demonstrated a laudable commitment to increase foreign aid flows overall, pledging an increase of \$CAN 248 million for 2005-2006, marking an 8 percent increase over last year's increase announced by the federal government (Canada, *The Budget Plan 2004*, 23/03/04).

“Terrorism”: A Controversial Term in Cuba’s Political Discourse

Ana J. Faya

The recent appeal for a retrial of five Cuban spies being held prisoner by the United States, along with the recent terrorists acts in Madrid, stimulates reflection on the way that the term “terrorism” has been used in the political discourse of the Cuban government. It also encourages consideration of the violent actions that the Cuban state has been involved in, directly or indirectly, using the defence of national security as justification.

For Cuba, the terrorist label has had a political and ideological component. For four decades, it has been applied by Cuban authorities to categorize acts of violence committed against the government, or organizations and states that have had political ties with the island. Terrorists have been considered individuals or organizations both inside and outside of the island, which have caused dozens of deaths and negative economic effects. However, this term has never been used to describe similar actions undertaken by the Cuban military or other institutions inside or outside of its territory, or to describe those foreign groups that have been trained in paramilitary violence or unconventional warfare on the island.

The Cuban government has applied the terrorist label, based on this definition, in several instances. The March 1960 explosion of the French ship *La Coubre*, which was loaded with arms bought by the revolutionary government and resulted in 350 dead and injured in the Havana harbour, was categorized by Cuban authorities as a terrorist act organized by the United States’ Central Intelligence Agency (CIA). Similarly, in the 1960s and 1970s there were a number of violent incidents, including the murders of literacy promoters; civilian deaths resulting from armed confrontations with insurgent groups in the mountains of Escambray and incursions into Cuba by armed Cubans based in the US; the bombing of a *Cubana de Aviación* civilian plane filled with people of different nationalities; and more recently bomb explosions in Havana hotels. These activities have been categorized by the Cuban government, without distinction, as *acts of terrorism*.

Conversely, a different label was applied to violent actions that took place prior to and after the Cuban revolution in 1959 to obtain or defend power, or to extend the revolution. These actions have been justified in Cuba on the grounds that they support the *defence of national liberation*, and neither the official history nor political discourse recognize them as terrorist acts. During 1957 and 1958 the often fatal explosion of bombs and petards by the 26 of July Movement, directed by Fidel Castro, were common in the streets of Cuban cities. During this period the same organization undertook the first hijacking of an aircraft, as well as the kidnapping of a famous and apolitical Argentine athlete. After 1959, there were a number of similar acts performed by Cuban military organizations (army and militia) that claimed numerous lives, like military and counterintelligence campaigns against groups opposed to the revolution in Pinar del Río, Oriente, and the prolonged “cleansing” of the Escambray from 1960 to 1965; assassinations in foreign countries by Special Troops of the Ministry of Interior to settle

accounts with those considered “enemies” of the revolution; and penetrations, invasions and military assistance provided in the territories of Algeria, Venezuela, the Congo, Bolivia, Chile, Angola, Guatemala, El Salvador or Nicaragua.

Moreover, the government of the island, engrossed in a perennial confrontation with the United States, has maintained political and military links with insurgent groups from a number of countries, especially in Latin America, that have demonstrated their nonconformity with Washington’s policies. Through this cooperation Cuban authorities have offered protection to their members, be they from Colombia, Northern Ireland, Puerto Rico, the United States, Palestine or Spain, even if they did not officially agree with their tactics, or if the organizations did not have communist affiliations. The terrorist actions of these organizations and individuals, as well as their victims, have been overlooked, often on the grounds of “ideology”, while similar actions undertaken by “unsympathetic” organizations have been condemned. Using this “ideological logic”, the actions undertaken by ETA (Basque Separatist Group) in order to obtain the independence of the “Basque territory” could be justified. The massacres undertaken by Al Qaeda could also be justified as revenge for the US involvement in the Middle East, and the wars in Afghanistan and Iraq.

In accordance with the tendency to use the term “terrorism” to fit political ends, the Cuban government has made a case out of five officials from the Cuban Ministry of the Interior who were among 14 agents captured by the Federal Bureau of Investigation (FBI) and charged with spying for Cuba in the so-called Wasp-Net. Although these five individuals admitted being Cuban intelligence officials, they denied charges of espionage against the US, arguing that they only infiltrated “terrorist” Cuban American organizations in order to prevent attacks against the island. The other nine agents captured by the FBI confessed to the espionage charges and were given lighter prison terms. However, the five Cuban officials that denied charges have become heroes in Cuba, and are presented by Cuban authorities as political prisoners “fighting against terrorism inside US territory.”

Venezuela

A recent decision by the Constitutional Chamber of the Venezuelan Supreme Court once again calls into question the eventuality of a revocatory referendum on the presidency of Hugo Chavez. On March 23 the Constitutional Chamber overturned an earlier (March 15) ruling by the Electoral Chamber which seemed to pave the way for a recall vote on President Chavez' rule, by validating the authenticity of 876,017 signatures attached to the referendum petition. The March 23 ruling will now force the opposition to authenticate at least 600,000 of the collected signatures before a referendum can be considered. To justify their decision the Constitutional Chamber claimed that the Electoral Chamber - a chamber of the Supreme Court - does not have jurisdiction over the National Electoral Council (CNE), which is charged with overseeing the referendum, and which had earlier rejected the authenticity of the 876,017 signatures.

The recent decision by the Constitutional Chamber is one in a series of setbacks, characterized by procedural errors and ongoing jurisdictional battles, which have marred the referendum process. Problems began when the petition was submitted by the opposition coalition *Coordinadora Democrática* in December 2003. Upon review of the attached signatures, in late February the NEC announced that only 1.8 million of them were considered valid, short of the 2.4 million needed to call a referendum (1.1 million were judged to be "suspect" and potentially fraudulent). The majority of "suspect" signatures - 876,017 - were on forms which had been filled out in another person's handwriting. The opposition argued that was volunteers helping incapacitated people fill out forms, but the CNE ordered that the 876,017 signatures would have to be verified via a nation-wide "repair" session. Observers from the Organization of American States (OAS) and the Carter Center concurred with the CNE about the suspicious nature of the "suspect" forms, but voiced concern about the verification plans of the CNE (*Carter Center*, 02/03/04).

The fate of the referendum has not yet been decided. The recent decision by the Constitutional Chamber will likely result in an appeal by the Electoral Chamber to the country's 20 member Supreme Court Plenary Chamber - the highest court of appeal. Analysts suggest that power struggles within the Supreme Court could result in missing the August 19th deadline to complete the referendum (EFE, 24/03/04). After this date new presidential elections cannot be held, and in the event that Chavez lost the referendum, his vice President, José Vicente Rangel would take over the presidency until 2006. As of March 24, no date had been set for verification of the suspect signatures, although the Carter Center and the OAS have already confirmed their participation in the verification process (EFE, 24/03/04).

According to news reports, the trial of the five men began in 1998 and ended in December of 2001. Trial proceedings followed due process: the defence was given ample time to review more than 10,000 pages of evidentiary documents presented by the American authorities, defence lawyers had access to and interviews with Cuban authorities and were able to present Cuban reports to the court. It was also proven in the trial that the five officials belonged to the Cuban military, and had in fact been promoted in 1996 after the head of the Net was instrumental in providing the Cuban military information leading to the "successful" execution of *Operación Escorpión* in which two small planes piloted by unarmed civilians belonging to the Cuban-American organization *Hermanos al Rescate*, were shot down by the Cuban Air Force.

Despite these facts, the Cuban government has recently lodged an appeal asking for a retrial. In addition, Cuba has launched a national and international campaign to try to project an image of five heroes - "prisoners of conscience" - that the American justice system relentlessly tried to persecute for "fighting terrorism." The potential procedural violations that may have been committed during the prolonged trial and the subsequent imprisonment of the five have been obscured by the ideological campaign that has been used by the Cuban government to manipulate public opinion in Cuba and abroad.

To accept the logic of the Cuban government in these matters sets a dangerous precedent: accepting that any state could use its intelligence agency in a "preventative war" similar to that which the current Bush administration is promoting in Iraq, to penetrate other states that they consider may potentially develop activities that threaten their national security. Additionally, the terms and categories that the international community used to discuss victims and perpetrators of violence have been contorted by the rhetoric from Havana. The ideological term "heroes", the legal term "spy", and the human rights defenders' "prisoner of conscience" are not applied by Cuba according to conventional norms.

To be consistent, the Cuban government should be prepared to recognize the Spanish intelligence agents that were able to infiltrate Cuba to gather information about members of ETA, as well as those from the CIA that want to know about the activities of the ex-members of the Puerto Rican organization *Los Macheteros*, former members of the Black Panthers that are refugees on the island, as well as the members of the Special Troops

US-Canada

FOCAL Hosts Assistant Administrator for Latin America and the Caribbean at the United States Agency for International Development (USAID), Adolfo Franco

On March 18, FOCAL hosted a high-level meeting in Ottawa between Assistant Administrator for Latin America and the Caribbean at the United States Agency for International Development (USAID), Adolfo Franco, and Canadian officials. This meeting came on the heels of an earlier visit to Canada by U.S. Assistant Secretary of State for Western Hemisphere Affairs, Roger Noriega in September (see FOCAL POINT September 2003). These visits are seen as signals of U.S. interest in a closer bilateral relationship in policy towards Latin America and the Caribbean.

In the context of Prime Minister Paul Martin's interest in improving relations with the United States, such informal discussions have identified a number of issues on the regional agenda where greater Canadian-U.S. cooperation could be realized. As argued in this issue of FOCAL POINT, Haiti is a first chance to test Canadian-U.S. cooperation. Haiti is a unique opportunity for Canada to demonstrate leadership and the U.S. would likely welcome Canada taking such a role. Haiti could emerge as the blueprint for US-Canadian cooperation in the region.

Canada and the U.S. have also worked together on the Summit of the Americas conference on Corporate Social Responsibility (CSR) and were the only countries to assign staff to the coordinating committee. CSR and wider issues of business participation in development are elements for both countries in meeting the United Nations' Millennium Challenge Goals. Thus far, Canada has concentrated on policy issues with CSR while the U.S. has focused on funding public-private partnerships. There is complementarity in these approaches.

Transnational issues (as distinct from migration and refugee issues) are an area of potential cooperation. There is common ground to work on fostering diasporas linkages and Canada and the U.S. have committed at the Monterrey Special Summit to reduce remittance transfer costs in the region by 50 per cent over the next four years. Achieving this new goal will require cooperation between the U.S. and Canada.

that assassinated Cuban-American citizens in Miami. They would understand how Colombian intelligence agents could be curious about National Liberation Army (ELN) member activities on the island, or that some Chileans could still have doubts about the cooperation between exiled Chileans and the Cuban intelligence service that is alleged to have resulted in the escape of certain prisoners from Chilean jails during the democratic transition in that country. These would not be the only cases.

During many years the international principle of "those considered a terrorist by some, are a defender of liberty for others" was valid. But after September 11 new global consensus has been taking shape that does not define terrorists by the ideology they profess or the objectives that they stand for, but for the deliberate use or threatened use of force against innocent civilians. The global context of a war of and against terror requires moderation and actions driven by rationality, not by ideology. Unleashing a cycle of violence could lead to a fatal end for all. In the case of Cuba, Cuban government confrontations with opposition groups and American administrations have demonstrated a chain of violent actions and reactions that needs to be overcome in order to avoid a major confrontation. The use of any type of terrorism, or the maintenance of connections to those who practice it – including state "terrorists" – and regardless of the ideology, should be unjustifiable and unacceptable. This is imperative given the current circumstances internationally and in Cuba.■

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Look for our coming publication titled:**“The Corporate Social Responsibility System in Latin America and the Caribbean”**

by Paul Alexander Haslam.

This paper advances our understanding of the existing system of corporate social responsibility (CSR) promotion and advocacy in Latin America and the Caribbean. It begins by contextualizing the relative importance of, and commitment to, corporate social responsibility in the Americas through a cross-national comparison of levels of CSR activity. The paper then elaborates a model, “The CSR System” which theorizes the key relationships and influences on the development of the CSR culture in the region.

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