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Santa Cruz Votes for Greater Autonomy

The region of Santa Cruz in Bolivia's south-east went to the polls on May 4 to vote for greater political, economic and administrative autonomy. An exit-poll count of 22 per cent of ballots from yesterday's autonomy vote yielded a more than 80 per cent backing for the proposal. But President Evo Morales has rejected the vote, calling it illegal. The vote has also highlighted a stark divide between the southern regions' predominantly conservative *mestizo* population and the poorer indigenous populations that support the president's socialist policies. Morales' supporters had vowed to boycott the referendum and abstention rates are still unknown.

Campaign Rhetoric and Real Policy Choices: The U.S. Scramble for Votes

Abraham F. Lowenthal

The competitive scramble for votes in the Ohio, Pennsylvania and other Rust Belt Democratic presidential primaries in the United States has created the impression that, if elected, either Hillary Clinton or Barack Obama would try to renegotiate NAFTA and would scuttle the negotiated but not yet Congressionally approved free trade agreement with Colombia. Some believe that a Democrat in the White House would more generally abandon long-standing U.S. efforts to expand international trade, particularly with the countries of Latin America and the Caribbean and also perhaps in Asia. There is concern in business circles and internationally about this prospect, but this worry may well be misplaced.

The current attack on "free trade," and the corresponding attacks during the earlier Republican primaries on immigration, both respond to intensifying concerns among U.S. workers, both blue and white collar, about the increasingly evident combination of looming recession and rising inflation. People throughout the United States, but especially in the Rust Belt states, are very worried about the subprime mortgage and wider credit crises, the accelerating decline in real estate values, job insecurity, the shrinking consumption rate, increasing health care costs, uncertain pension rights and the weakening dollar. This gathering anxiety leads naturally to the search for scapegoats, whether trade agreements, unauthorized immigrants, greedy corporations and executives, and/or corrupt or incompetent regulators and economic policy officials.

The comments candidates make about trade policy in this context, like the immigrant-bashing comments of the Republican competitors in their primaries, are

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Note from the Editor

The vast majority of residents in the Bolivian province of Santa Cruz voted "yes" to an autonomy referendum on Sunday — a not unexpected result, as supporters of President Evo Morales had vowed to boycott the election and abstention rates are still unknown. Perhaps more surprising, however, was the limited outbreak of violence around an issue that has become increasingly heated and polarized along racial lines. The potential for violent clashes was high — organizations such as the Santa Cruz Youth Union and the indigenous group Ponchos Rojos, for example, have been building up militia forces that are clearly prepared for armed conflict. While the potential for such militias to take action still exists, the limited violence during the referendum is an encouraging sign that perhaps the country will not "explode" into civil war like some have been suggesting.

On the other hand, President Evo Morales cannot dismiss the vote outright, although he is trying. Santa Cruz is unlikely to back down from this fight. Although the government has painted the referendum as an illegal separatist movement, the Santa Cruz government has repeatedly stated that they have no plans of secession. Santa Cruz Governor Ruben Costas has said that they simply want more political, economic and administrative independence for their province and that greater regional autonomy will actually keep Bolivia united.

But the problem goes deeper than that. The province of Santa Cruz is large and wealthy, holding approximately 25 per cent of Bolivia's population, a large proportion of rich agricultural land, and a significant amount of the country's large oil and gas reserves. Indeed, Bolivia's eastern area is home to the region's second-largest natural gas reserves after Venezuela. Its population is also predominantly white or mestizo (mixed white and indigenous heritage) – only 15 per cent of Santa Cruz is indigenous, while Bolivia on the whole is 50 to 60 per cent indigenous.

Bolivia is also one of the poorest countries in Latin America, with estimates that 59 per cent of the population lives in poverty and 24 per cent are considered extremely poor. This poverty disproportionately affects indigenous and rural Bolivians, adding emotional tension to an already contentious issue. Racial tensions have a long history in Bolivia and some supporters of the referendum have argued that indigenous people "have all the rights" now that there is an indigenous president directly advocating for them. At ballot boxes on Sunday, some voters were already verbally abusing those who looked like they were from other provinces — that is, darker-skinned people.

Attempts to create dialogue between the two sides before the May 4 referendum failed, even with the intervention of the Catholic Church, the OAS and other external mediators. Morales is now refusing to acknowledge the vote, stating that it is unconstitutional, while the opposition is declaring that the new — and still pending — Constitution is itself illegal. Morales' proposed redistribution of land has angered many wealthy Bolivians, but indigenous groups are hoping that such proposals will help remedy the vastly inequitable land ownership and wealth distribution in the country. Three more provinces are now planning autonomy referendums, while a large indigenous movement is drafting their own autonomy demands.

So what will happen next? If Morales has the military on his side — which is not a guarantee — he could strong-arm the Santa Cruz government and likely incite violence that could further exacerbate racial tensions. If he backs down and accepts the autonomy vote, he could anger many of his followers and weaken his support base. Ideally he would find a middle ground, but without dialogue with Santa Cruz, it is unclear where that might be.

In any case, the referendum demands action, especially since three other wealthy provinces are waiting to see what Morales will do. The indigenous population, too, is waiting, hoping that Morales will fulfill his promise to redistribute land and give *them* more autonomy. Whatever he does, Morales cannot simply ignore the referendum results. Santa Cruz is too large, too rich and too powerful to dismiss so easily.

Rachel Schmidt

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Campaign Rhetoric *(continued from page 1)*

efforts to connect with the anxieties of voters, not to present detailed and actionable policy proposals. It is not so much that the candidates are cynical or duplicitous (although there is certainly some of that) as that their imperative now is to persuade voters that they feel their pain and understand their concerns, not to furnish or endorse complex public policy measures.

The next U.S. President and Congress will surely have to tackle the challenge of re-stimulating the U.S. economy as an urgent priority. As they focus on this crucial task, the pros and cons of trade agreements will probably be nowhere near the centre of consideration. Decisions about fiscal and monetary policy, taxes, budgets, entitlements, investment, safety nets, retraining, infrastructure, energy and the environment will be much closer to the heart of the matter. There will be demands for immediate action, but above all for a strategy and sense of direction.

If and when a new national strategy for economic recovery and growth can be fashioned, renewed emphasis on expanding trade is actually more likely than not, no matter who is elected in November. This is because U.S. prosperity is inevitably linked to international competitiveness in a globalized world. In that context, the 2007 agreement between the Bush administration and the Democratic leaders in Congress, and then with the government of Peru, is a likely model for new trade agreements. Substantial programs for worker retraining and adjustment in the United States are probable as well. It is unlikely that any of the three candidates will scuttle FTAs, fundamentally challenge NAFTA or reduce trade. Nor will any, even Senator John McCain, try to proceed forward on new agreements without incorporating labour standards and environmental provisions into the proposed agreements and without proposing aggressive retraining and adjustment programs at home.

> The proposed Colombia FTA agreement has become the unfortunate victim of political calculations that have little to do with the situation of that country.

The proposed Colombia FTA agreement has become the unfortunate victim of political calculations that have little to do with the situation of that country. The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), weakened in many ways over the past 20 years, has chosen to draw the line on Colombia as a battle it thinks it should define as a "must," and that it thinks it can win. The U.S. Administration's decision to pull the trigger on consideration of the agreement within 90 days backfired because the Democratic leadership in Congress would rather fight the administration on this procedural issue than risk division on the terms of the agreement itself. The Administration's attempt to turn this vote into a question of national security has not been credible, especially when put forward by a president who has played this card too often.

Latin American and other developing countries around the world will be best off with a new U.S. Administration that focuses well on revitalizing the U.S. economy; that restores multilateral and respectful approaches to the international relations of the United States generally; and that works hard to secure comprehensive and proactive immigration reform. That kind of administration, of either party, would necessarily also seek a bipartisan and sustainable new commercial policy that takes into account the needs of those displaced by expanded trade, both in the U.S. and in the economies of our economic partners.

Any of the three currently competitive candidates for the U.S. presidency should move in all these directions. It is far too soon to ring alarm bells about the next administration's foreign and trade policies.

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Access Denied?
Debating Freedom of Information in Venezuela

Rachel Schmidt

Regardless of how you feel about Hugo Chávez, being a journalist in Venezuela is not an easy task. Reporters working for the privately-owned media cannot print certain stories due to advertising interests, and those working for state-owned media are restricted to specific content for political reasons. Journalists in both sectors have faced verbal or physical attacks for their coverage.

That the majority of privately-owned media have taken the side of the opposition has only fuelled the extreme media polarization. Recent protests at a meeting of the Inter-American Press Association (IAPA) in Caracas had supporters of President Chávez accusing the media of distorting the truth and trying to destabilize the Venezuelan government with "media terrorism." The private media, on the other hand, has consistently claimed that the president blocks access to information and inhibits freedom of speech.

Of course, one look at *El Nacional* or *El Universal*, two of the major dailies in Caracas, suggests that freedom of speech is alive and well in Venezuela. This is clearly not a dictatorship where the press is banned from criticizing the government.

Yet there is a significant difference between freedom of speech and freedom of information.

Indeed, the ability to access information is widely cited as an ongoing concern in Venezuela, and not just for journalists. Reporters Without Borders, Espacio Público, the Press and Society Institute (IPYS), Human Rights Watch, the Inter-American Human Rights Commission and the Secretary General of the Organization of American States (OAS) have all noted serious obstacles to public access to information in their reports on Venezuela.

Central America Feels the Pinch of Rising Food Prices

"We fear a deepening nutritional crisis among the poorest segments of the population, those already food and nutritionally insecure," said WFP El Salvador Country Director Carlo Scaramella. He is overseeing a regional study of the impact of the food price increases in Central America. Initial findings show that rural Salvadorans are eating 60 per cent of the calories that they ate in May 2006. "These people have seen their access to food diminish as a result of the rising prices of basic commodities like corn, wheat, rice and beans," he said. The crisis is also bringing in a "new group" of people from the poorest sections of the population that had hovered above food insecurity. "It's a new phenomenon that may likely affect many people across Central America."

The Bolivarian Alternative for the Americas (ALBA) trade group, consisting of Bolivia, Cuba, Nicaragua, and Venezuela, met in Caracas on April 23, announcing a $100 million fund to support growing beans, corn and rice. The ALBA leaders have criticized the United States for flooding regional markets with cheaper, subsidized foodstuffs and its turn to bio-fuel production as a driver of the food price hikes.

As one example, the non-governmental organization Espacio Público ("Public Space") conducted a study in 2007 to test the constitutionally guaranteed right to access information. Various professionals, students and other Venezuelan citizens made a total of 46 requests to a wide range of different ministries and departments for information that, according to the constitution, should be publicly available. The requests were for facts such as government salaries, government spending and further details on the right to access information. Out of these 46 requests, 87 per cent of the responses were negative, with 78 per cent simply ignored. Only one request was answered in full, with the remainder receiving only partial information.

Public officials visited two participants in the study — who made separate requests to the Ministry of Defence and Ministry of Labour — asking why they wanted such information. "[The State] thinks that those who make requests are suspect," said Carlos Correa, the director of the study. The pattern of responses (or lack thereof) has been quite similar for a larger study currently being conducted. "Handing over information is the exception," said Mr. Correa. "And the absence of a response is the norm."

This lack of access to government information and officials can also extend to foreign correspondents. Tim Harper, the Washington Bureau Chief for the *Toronto Star*, travelled to Venezuela in 2006 and filed several stories while he was there. Mr. Harper said he had hoped to gain access to President Chávez or someone else in the government, and the Venezuelan embassy in Washington had provided a written endorsement of his presence in Venezuela. Yet when he arrived in Caracas, he says he was unable to reach any government officials. The Washington embassy even made a last-minute request urging the government to call Mr. Harper at his hotel before he left Caracas, but that call never came.

Despite being unable to interview government officials, Mr. Harper did speak with a number of Chávez supporters, attended pro-Chávez rallies and "strove very much to be fair." He conducted a long interview with an opposition leader, but saw no reason to decline such an interview just because he had not been able to speak with government officials. He likened the situation to one in Canada where, just because he might not be able to interview Prime Minister Stephen Harper doesn't mean that he would turn down an interview with opposition leader Stéphane Dion.

After the *Star* printed his stories, Maria Paez Victor, a Venezuelan-born sociologist residing in Canada, and her colleague, Antonio Garcia Danglades, filed a complaint with the Ontario Press Council. Their complaint alleged that Mr. Harper's pieces were biased, contained erroneous information and neglected to attribute certain information to opposition sources.

They also presented a list from the Venezuelan government showing that 70 foreign correspondents had been granted 104 interviews in the 18 months prior to Mr. Harper's visit, arguing that it therefore should have been easy for Mr. Harper to access the government for an interview. The Press Council upheld the complaint in 2007, specifically stating that Mr. Harper had simply not tried hard enough to speak with government sources.

Mr. Harper was clearly frustrated by the ruling. It was the first complaint ever brought against him in over 25 years of journalism. While it was true that he neglected to attribute crime statistics to an opposition source, he was insulted by the

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implication that he had deliberately avoided speaking with the government. "What journalist wouldn't want to talk to Chávez?" he said in an interview with FOCAL. "I would have walked across hot coals to talk to him."

After the ruling, two journalists based in Venezuela wrote to the Ontario Press Council objecting to the decision. Phil Gunson, a correspondent for the *Economist*, *Newsweek* and the *Miami Herald*, wrote that "the government of President Hugo Chávez exercises systematic discrimination against those journalists and media that do not toe the official line." Mr. Gunson, based in Caracas since 1999, also said in a recent telephone interview that "the [Venezuelan] government has moved steadily to restrict access to those of the media that it considers the enemy… You can't get access to the government except in very controlled circumstances."

When asked about these letters objecting to the ruling, Mel Sufrin, Executive Director for the Ontario Press Council, said: "Perhaps if we had that information at the time, we would have ruled differently… I'm not saying we would have, but we might have."

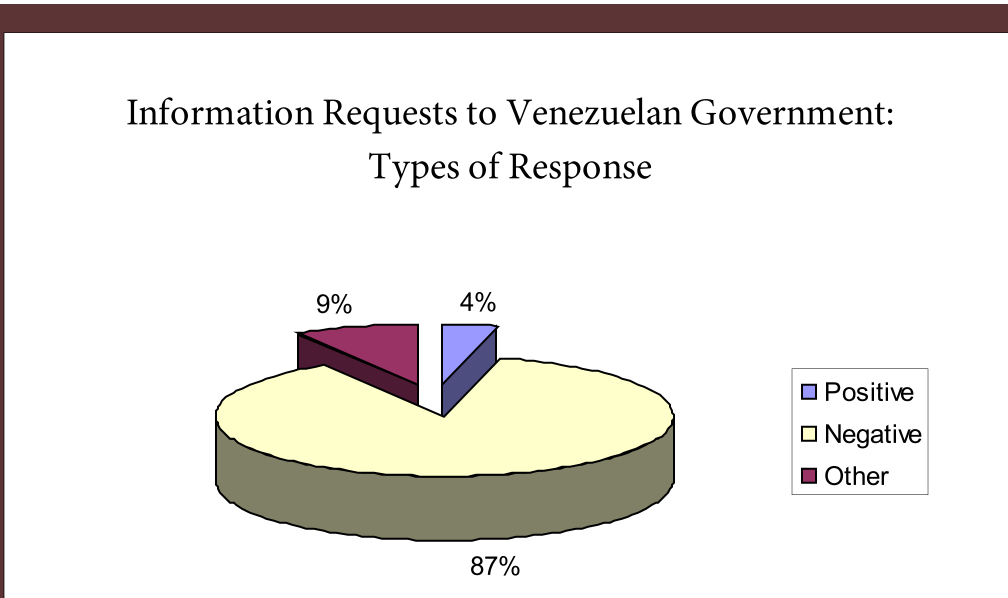
Dr. Paez Victor responded to the objections with disbelief: "If you're telling me that reporters are crying in their whiskeys as they sit in their correspondents' bars that they can't get interviews, then I doubt their professional capacity."

However, Mr. Gunson and Robert Bottome, the editor of *VenEconomia*, both noted that 104 interviews in 18 months (an average of five per month) was hardly an encouraging statistic, given that there are over 70 foreign correspondents based in Caracas alone, not to mention the numerous reporters that arrive for temporary assignments. Mr. Gunson pointed out that this could easily be the number of interview requests that *each* foreign journalist makes per month.

Exactly who received interviews with which government officials remains unknown. The Ontario Press Council would not release this list of interviews, citing all complaint material as confidential. Dr. Paez Victor also refused to share the list with FOCAL. She suggested that we write to the Venezuelan embassy in Washington to obtain our own list, which we promptly did. However, in the two weeks leading up to this article's release, the embassy did not respond. We also made a request to the organization Hands Off Venezuela, whose website indicated that background documents on the case were available upon request. We received no response.

For her part, Dr. Paez Victor states that the media consistently misrepresents Venezuela and fails to cover all of the positive changes that have occurred since President Chávez came to office. "The people in Venezuela understand that the media is not reporting the things that are happening in Venezuela with a clear and balanced view," she said. "There are interests involved, and they feel clearly that the international media should be more balanced towards Venezuela."

But when asked if the majority of Chavistas were fair and balanced in



Source: Espacio Público, 2007, *Final Report: Study on Access to Public Information in Venezuela* their own accounting of events, she did not directly answer the question. Instead, she replied: "Excuse me, who has the power here? Who owns the international media? Are you telling me that the Venezuelans own *Reuters* or the *Globe and Mail* or the *New York Times* or the *Washington Post*? Who owns the media?"

In fact, Phil Gunson is one of those reporters alleged to have ulterior motives. The Venezuelan information minister Andres Izarra accused him on live television of being a paid agent of the U.S. State Department and leading a media campaign to destabilize the government. As Mr. Gunson points out, this would be a crime of treason. Yet, nothing further came from the accusation and he is still permitted to live and work in Venezuela. He dismissed it as yet another attempt by the government to intimidate the media.

"We've had to reflect long and hard about what it means to be objective," said Mr. Gunson. "I don't use that word because I don't think any of us are. We strive to be impartial – not to say that we don't have opinions, but that we keep an open mind and go the extra mile to listen to the other side of the case. It is hard when you're having mud slung at you."

The other predominant concern of journalists writing about Venezuela, whether inside or outside the country, is the perception that if you openly criticize the government or seek out further information, you are immediately labelled as an enemy. "As with other aspects of life in Venezuela, the attitude is that you're either with us or against us," said Mr. Gunson.

As for Tim Harper, he says that the Press Council ruling has had a subliminal chilling effect. "You don't self-censor," he said. "But you think twice before you write things." He is most concerned about the case setting a precedent that if you cannot access someone, you are not in a position to write about or criticize that person. If this were the case, the inability to access information would directly impede freedom of the press, which should not be taken lightly in Canada or Venezuela.

That Venezuela has constitutionally guaranteed the right to access information is undoubtedly a step in the right direction, and it is much more than some other countries in the region have achieved in this regard.

But freedom of expression is severely limited without freedom of information. Unless this guarantee is regularly fulfilled in practice, it will quickly become worthless.

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Press Freedoms Index 2006-2007

Countries of the Americas as they rank among 169 nations worldwide

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75 Brazil
76 Argentina
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87 Haiti
90 Guatemala
112 Peru
115 Venezuela
131 Colombia
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165 Cuba

The Reporters Without Borders index measures the state of press freedom in the world. The criteria measured in the questionnaire include: violations against journalists and media, accountability of violation perpetrators, the legal framework for the media, public media independence, and flow of Internet information.

Source: Reporters Without Borders www.rsf.org

Beyond 0.7 Per Cent: Targeting Investment and Trade

Danielle Goldfarb

Public debate on how to help poor countries generally focuses on how much aid rich countries give as a share of their own economies. In 1970, the UN General Assembly agreed on a target of 0.7 per cent – proposed by Canada's Lester Pearson – for rich country donations.

Canada has never met this target and there appears to be no analytical basis for it. Perhaps more importantly, the evidence suggests that rich countries can have a larger impact on reducing poverty in the developing world by aiming for other targets. For example, rich countries could aim for expanded international trade and investment with poor ones, even though this would mean fewer photo ops than new aid programs.

Aid, according to Brookings Institution researchers, is rapidly becoming unmanageable, with multiple donors, many fragmented projects and divided priorities. By their assessment, both the volume and the quality of rich country aid are declining, with less aid available for long-term development priorities. And while aid has been successful under some conditions, its overall poverty reduction record has been mixed. Moreover, even if Canada met its 0.7 per cent aid target, the country would continue to be a relatively small aid donor.

By contrast, the effects of international trade and investment on poverty reduction have, on balance, been positive. And their volumes dwarf aid volumes. Foreign direct investment to developing countries is about three times the value of global foreign aid.

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While there may be some downsides to such investment, overall it has raised government revenues, employment, productivity and in turn living standards in developing countries. And investing in developing economies allows Canadian companies to access fast-growing markets and draw on inputs from those markets to make themselves more globally competitive.

Similarly, evidence from the World Bank and others suggests that buying goods made in developing countries has raised poor country incomes and helped provide better-paying jobs, particularly for women. Eliminating all rich country trade barriers would result in income gains to developing countries double that of global foreign aid, lifting hundreds of millions of people out of poverty. And since, unlike for aid, income from trade bypasses government, officials cannot use it for ends that have little to do with development.

To be sure, increased trade with developing countries would require adjustments for some Canadians in the short-term. But the balance of evidence suggests that enhanced trade would result in long-term overall benefits for Canada, including higher productivity and incomes, lower prices, and perhaps even a shift towards higher value activities. Trade barriers – such as tariffs and complex origin rules to qualify for duty-free treatment –

essentially penalize Canadian businesses seeking the most efficient source of inputs to be able to compete globally, innovate, and move to higher value-added activities. Trade barriers also make consumers pay more too. And tariffs are no longer a significant source of government revenue.

Canadian private and public leaders have taken positive steps towards increasing trade and investment in the developing world. But new Conference Board research shows that Canada is falling short in tapping the potential of global supply chains, particularly in rapidly growing large, developing economies with large numbers of poor people.

Canada's weak performance is at odds with increased opportunities in many parts of the developing world, and, moreover, does little to offset a plateau in Canada-U.S. supply chain growth. So there is considerable scope for improving Canada's trade and investment performance, and improving the lot of the developing world at the same time.

Canadian businesses must lead the charge to target improved trade and investment outcomes. It is in their interest to access rapidly growing new markets, and identify developing country strengths that could make Canadian supply chains more globally competitive.

Ottawa also has a key role to play. Government needs to remove remaining barriers to businesses conducting two-way trade and investment with developing markets. On the trade front, at first glance Canada appears to be relatively open, with average tariff rates of less than one per cent. Unfortunately, tariffs still heavily protect precisely those goods – such as textiles, clothing, footwear and agriculture – that developing countries produce.

In 2003, Ottawa, to its credit, eliminated tariffs on most imports from the poorest countries. But the poorest countries account for only about one per cent of Canadian imports. Far larger is the more than half of Canadian imports that come from other low and middle income countries that may not have the lowest average incomes, but are home to massive numbers of poor people – and are still subject to tariffs on many of their goods. Ottawa should therefore take a global leadership role and eliminate remaining tariffs and non-tariff barriers on goods from the developing world. A gradual reduction over, say, five years, might make this more politically feasible.

On the investment front, Ottawa's mixed signals on inward investment – analyzed in a just-released Conference Board study – do little to attract investment commensurate with the size of Canada's economy. And Canadian governments have not explicitly promoted outward investment in the past. To improve outcomes in the developing world and in Canada, Ottawa should both clarify its policies on inward investment, and both the federal and provincial governments should explicitly encourage outward investment (as the federal government recently started to do), particularly to developing countries.

Raising the profile of trade and investment in development efforts should not mean eliminating aid entirely. But rather than focusing on aid volumes or targets, Canada's aid program must be more focused, locally responsive, decentralized to the developing world (most staff are in Ottawa) and open to debate and feedback. Canada's aid agency also needs more consistent leadership to

Ecuador Freezes Mining Activities

On April 18 the Constituent Assembly of Ecuador issued a Mining Mandate, which suspended most mining operations in the country for a period of six months. The suspension serves the purpose of re-evaluating the existing mining concessions and those in the process of approval in the country. The six-month period will also provide the necessary timeframe for the Constituent Assembly to bring the new mining law into effect. The new mining law will provide the basis for the creation of a national mining company, which will be responsible for the mining of resources deemed to be of national interest to the Republic of Ecuador. Rafael Correa, the President of the Republic of Ecuador, has expressed a desire to eliminate mining projects that are plagued by legal irregularities in the hope of redefining the rules for investment in support of responsible mining developments. The government of Ecuador has caught the mining sector off guard by issuing the mandate. However, industry spokespersons have stated they are hopeful that this does not mean a decisive stance against mining but rather a desire to clarify the expectations of all stakeholders.

make this happen. And there is still a role for humanitarian aid to address crises, including the current food crisis.

Other non-aid policies matter too. For example, funds remitted by migrants back to their origin countries are at least three times the value of global foreign aid, are growing at a much faster rate than aid flows, and have reduced both the incidence and severity of poverty in developing countries. Canadian policymakers need to do a better job at collecting basic data on remittances, as well as increasing transparency and removing barriers to competition for such transfers.

As well, Canada needs to encourage developing economies to adopt policies – such as investments in education and infrastructure, and policies that create alternatives to child labour – that will allow them to take advantage of increased Canadian trade and investment. Governments could also work more closely with the private sector and civil society. For example, the Dutch bring private sector members on aid missions, to encourage possible investment in developing countries.

Canada has a strong interest in a more stable, prosperous world. For a more meaningful contribution to poverty reduction in the developing world and better Canadian living standards, Canadian government and business leaders should shift attention from the 0.7 per cent aid spending target to target better investment and trade outcomes.

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The Innovation Gap:
Technology and Pharmaceuticals in Latin America

Marta Oprisan

Latin America needs to take more steps to foster an environment favourable to innovation, particularly by focusing on effective intellectual property protection. There is an ongoing problem in Latin America in creating an environment conducive to innovation that respects intellectual property, particularly in the area of patented pharmaceuticals, with many countries rewarding the copying of drugs, rather than the development of new ones.

When protection is present, not only do pharmaceutical patents increase, but so does foreign direct investment (FDI) in the pharmaceuticals sector. Innovation and investment are important in the development of medical breakthroughs, which always require high levels of risk taking by the company involved. The incentive to take these risks is only present if there is sufficient respect and adherence for the protection of intellectual property.

For example, in Brazil, the medical possibilities of the flora and fauna found in the rain forest were no secret, but until there was sufficient protection, it was not worth the risk for companies to develop biomedical products. In the 1990s, with the needed protection introduced, Brazilian companies were able to innovate and take risks, benefiting patients and the whole of the Brazilian economy.

Although companies benefit financially from having their products patented, patients in the region also benefit by having access to life-saving medication. A healthier population means a healthier workforce and higher productivity, leading to development and overall growth of the economy. The cost of these treatments can be prohibitive, which is a common criticism of drug patenting in the context of development. Often, the suggested solution is one of removing or weakening the protection of intellectual property. However, if protection is needed for these drugs to be invented in the first place, there is a need for other creative solutions to help the population actually gain access to the medication. In response, Latin American countries have often threatened to use patents of large pharmaceutical companies and are even supported by some U.S. members of Congress.

Yet, the negative impact on the companies that incurred the risk to develop the drugs must be taken into account. The World Health Organization is aware of the problem of stealing patents, pointing out that the fact that communicable diseases remain so widespread in poor countries is partly due to the fact that drug companies have little incentive to innovate medications for markets that cannot pay for them. As protection is needed for these drugs to be invented in the first place, there is a need for other creative solutions to help the population actually gain access to the medication. The challenge really lies in the infrastructure of health care, not the patents themselves.

Since the beginning of 2008, the Inter-American Development Bank (IDB) has been actively working in Argentina, Chile, Panama and Uruguay to support their development of science and technology. Despite the increased spending and output in most Latin American countries in the areas of education and science and technology, the amount of support for the industries' development has not been sufficient to meet the needs or challenges faced in these fields, according to the 2006 IDB report. There is a problematic tendency for politicians to not follow through on their commitment to these important areas. The result is a lack of necessary funding, as well as unreliable official statistics.

Despite the increased spending and output in most Latin American countries in the areas of education and science and technology, the amount of support for the industries' development has not been sufficient to meet the needs or challenges faced in these fields.

The leader in the region in terms of research and development (R&D) is Brazil, with 1.05 per cent of its GDP allocated to science and technology. However, this is still very low compared to the 4.5 per cent of GDP allocated in Israel, 3.7 per cent in Switzerland, 2.7 per cent in the United States, and even 1.4 per cent in China. Second to Brazil in the region is Argentina, with the very recent creation of the Argentine Ministry of Science, Technology and Productive Innovation, doubling spending in the field from 0.3 per cent of GDP in 2003 to 0.6 per cent in 2006, with the goal of hitting one per cent by 2010.

The Secretary of Technological Development of Brazil, Guilherme Pereira, said that the reason for Brazil's leadership in the region is its broad action plan linked to industrial policy as well as the private sector. The Innovation Act was passed in 2004, on top of a law regulating tax incentives to encourage more R&D. Part of the results can be seen in the fact that Brazilian contributors in international scientific journals has risen to two per cent of total contributors. The number of PhD graduates has also increased dramatically.

According to the UN Development Program (UNDP) Human Development Report of 2007-2008, Brazilian investors obtained an average of one patent per one million people per year. Mexico was at the same level. But Argentina, with its lower investment rates in technology, had four patents per million people, the highest rate in Latin America. By contrast, in Norway, from 2000-2005, the rate was 103 patents per one million people, in Japan 857, and 244 in the U.S. Latin American leaders are well aware of this gap and claim to be committed to closing it.

Access for patent holders to markets remains a challenge, although Brazilian innovators such as Embraer, the Brazilian aeronautics company, have become world leaders.

A Brazilian metallurgical engineer and professor at the Federal University of Rio de Janeiro, Luiz de Miranda, said that he was pleased with the development that allowed for innovation and patents in Brazil. He has spent 30 years inventing a coating to protect metal from corrosion, but he has been unsuccessful in accessing the markets due to lack of commercial support. "The problem is that once one has a patent, one has to face a marketplace dominated by transnational corporations," he said.

A final challenge for Latin American innovation is a lack of a skilled workforce. University attendance rates in the region are still very low, with most people who do attend choosing to study humanities. In the end, only significant effort and investment can meet these challenges and narrow the innovation gap with the developed world.

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Cuba's Convertible Peso: Monetary Duality and Economic Distortion

Pavel Vidal Alejandro

Compared with the processes of partial dollarization that have taken place in other Latin American countries, monetary duality in Cuba is especially peculiar, because it implies the simultaneous circulation of two different national currencies.

Monetary duality in Cuba was born at the beginning of the 1990s, as the result of a process of partial dollarization. In 1993, holding foreign currency ceased to be a crime, making it possible for individuals to open bank accounts in U.S. dollars. Additionally, state-owned enterprises started accepting dollars as a form of payment for small-scale retail sales, and dollarization spread to the business sector. However, dollarization was never complete: salaries, pensions and a very large proportion of savings were kept in Cuban pesos, and many businesses and institutions continued to operate in the Cuban currency.

Ten years later, in July 2003, the dollarized bank accounts that were held by businesses and state institutions were converted to Cuban convertible pesos (CUC). In October 2003, the retail stores that had been pricing and selling in U.S. dollars switched exclusively to convertible pesos. As a result, the convertible peso, a currency that had only marginally been in circulation since 1994, took the place of the U.S. dollar in the Cuban economy as the medium of payment and reserve currency. Currently, the exchange between these two currencies is 1 CUC = 1.08 USD.

> In order to eliminate the double currency, great transformations in exchange policy must take place. To reach a single currency regime, Cuba first needs a single exchange regime.

Although additional currencies have been used from time to time – such as the euro in the tourist enclave of Varadero – there are two distinct forms of monetary duality. For 10 years, monetary duality was defined by the joint circulation of the Cuban peso and the U.S. dollar. Today, almost all financial transactions in Cuba are conducted in Cuban pesos or in convertible pesos, two currencies that are emitted by the Central Bank of Cuba.

Monetary duality has its origin in dollarization, which, in turn, was intrinsically linked to the years of economic crisis and hyperinflation known as the Special Period. In later years, monetary duality became part of a centralized and discretional economic policy that had very few rules and very many decisions determined by individuals. This resulted in an economy that was extremely hard to measure, predict or understand, which was termed the "handmade economy." In terms of monetary policy, the best examples are the segmentation of the currency exchange market and the duality of exchange rates. Both of these are currently considered factors that condition dual monetarism.

For individuals, 24 Cuban pesos are equivalent to one convertible peso. People buy and sell currency at this exchange rate in a network of currency exchange shops called Cadeca. This market operated in the past under a controlled floating exchange rate, and now works under a fixed rate regime.

For institutions, one Cuban peso

is the equivalent of one convertible peso, which means that this exchange rate is severely overvalued. A key characteristic of the Cuban currency exchange policy for institutions is that they cannot buy convertible pesos or foreign currencies with their income in Cuban pesos. In the business sector, the Cuban peso has no convertibility; its exchange rate exists only for accounting purposes.

There are very few possibilities of exchange rate arbitration, because businesses do not have access to the exchange shops. The volume of currency exchange that is handled in Cadeca and its restriction to cash-only transactions drive businesses away from this market, beyond the obvious fact that it is forbidden for them to exchange Cuban pesos.

These characteristics of the exchange market help to explain why, after de-dollarizing the economy, bringing inflation under control, and going back to the path of positive economic growth, monetary duality still exists today. In order to eliminate the double currency, great transformations in exchange policy must take place. To reach a single currency regime, Cuba first needs a single exchange regime.

In that sense, the following are necessary: 1) devalue the exchange rate for businesses of the Cuban peso; 2) harmonize this exchange rate with the exchange rate for individuals; and 3) allow the exchange of Cuban pesos in the business sector.

The analyses on Cuban monetary duality generally focus on inequality in income distribution. However, income distribution does not seem to be a monetary problem. Monetary duality and income distribution are different problems with different causes, and solving one does not necessarily lead to solving the other. One piece of empirical evidence showing that currency does not determine inequality is the fact that inequality persisted after de-dollarization.

Generally speaking, income inequality in Cuba stems mainly from low salaries, which are caused by the low productivity of the traditional public sector. Another cause of inequality is illegal economic transactions.

In all likelihood, the largest benefit from eliminating the system of double currencies would be an improvement in the functioning of production.

The overvaluation of the official exchange rate of the Cuban peso distorts any measurement of the economy that can be performed, from the accounting balances of businesses to the calculation of GNP. The excessive valuation of the Cuban peso makes a group of businesses artificially profitable and another group of businesses unfairly unprofitable – there is no relationship between profitability and efficiency. It also affects exporters, because for every dollar earned through exports, less than one Cuban peso is counted.

Eliminating the double currency would do away with segmentation, as well as contribute to creating new links between institutions. It would also strengthen the domestic market, reveal inefficient taxes and subsidies, and improve the country's appeal for foreign investment.

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Colombia Announces New Reparations

In an announcement made by Colombia's Interior and Justice Minister, Carlos Holguín Sardi, the government of Colombia pledged several billion dollars in reparation funds for victims of paramilitary groups. The minister assured that no new taxes will be levied to cover the restitutions, rather that the money will come from the national budget. The first disbursements will concern approximately 200,000 people, 126,000 of whom were officially recognized as victims by the Peace and Justice process. The total number of Colombian victims to be compensated is estimated to reach more than two million. The government hopes to begin compensations in the first half of this year. Mr. Holguín also explained that these administrative reparations do not impede victims from pursuing amends through the courts, nor are they substitutions for the restitution to victims by paramilitaries.

The initiative has received some criticism, saying that it is a ploy to detract attention from a recent political scandal surrounding lawmakers close to President Uribe. Others see the measure as bowing to international pressure, namely to the U.S., who has frozen FTA talks with Colombia.

El peso convertible de Cuba: La dualidad monetaria y distorsión económica

Pavel Vidal Alejandro

Comparada con los procesos de dolarización parcial que han ocurrido en otros países de América Latina, la dualidad monetaria en Cuba es sumamente particular por tratarse hoy de la circulación simultanea de dos monedas nacionales.

La dualidad monetaria en Cuba comienza a inicios de los años noventa como resultado de un proceso de dolarización parcial. En 1993 se despenalizó la tenencia de divisas por parte de personas naturales y se abrió la posibilidad de tener cuentas bancarias en dólares estadounidenses. También se iniciaron las ventas minoristas en dólares de entidades estatales a la población.

Alrededor de esta fecha, la dolarización empezó igualmente a extenderse en el sector empresarial. La dolarización siempre fue parcial. Los salarios, las pensiones y una parte mayoritaria del ahorro se mantuvieron en pesos cubanos. Un gran número de empresas e instituciones siguieron operando en pesos cubanos.

Diez años después, en julio de 2003, se convirtieron a pesos convertibles (CUC) las cuentas bancarias de las empresas e instituciones del estado que se habían dolarizado. En octubre de 2004, las tiendas minoristas que habían estado fijando sus precios y comercializando en dólares, empezaron a hacerlo sólo en pesos convertibles. Así, el peso convertible, una moneda que se había mantenido circulando marginalmente desde 1994, sustituyó las funciones de medio de pago y depósito de reserva del dólar estadounidense dentro de la economía cubana. La tasa de cambio actual del peso convertible es 1 CUC = 1.08 USD.

Para eliminar la doble moneda se requiere ejecutar importantes transformaciones en materia de política cambiaria. Para poder pasar a un régimen monetario único se requiere tener primero un régimen cambiario único.

Aunque se han utilizado al mismo tiempo varias monedas—incluyendo el euro en el polo turístico de Varadero—se pueden enmarcar dos momentos de la dualidad monetaria. Durante diez años, esta estuvo definida por la circulación del peso cubano y el dólar estadounidense. Actualmente, las dos monedas que ocupan la casi totalidad de las transacciones internas son el peso cubano y el peso convertible, ambas emitidas por el Banco Central de Cuba.

La dualidad monetaria tuvo su origen en la dolarización, la cual a su vez, estuvo vinculada a la crisis económica conocida como período especial y a la hiperinflación de esos años. Posteriormente la dualidad monetaria formó parte de una política económica centralizada y discrecional, con pocas reglas y excesivas decisiones particularizadas, que derivan en una economía difícil de entender, medir y pronosticar, y que ha sido llamada "economía hecha a mano".

En el ámbito monetario el mejor ejemplo de ello son las segmentaciones del mercado de cambio y la dualidad de las tasas de cambio. Ambos factores además son hoy en día condicionantes de la doble moneda.

Para las personas naturales, 24 pesos cubanos equivalen a un peso convertible. A esta tasa de cambio la población compra y vende monedas en una red de casas de cambio conocidas como Cadeca. Este mercado operó con un régimen de flotación manejada y ahora es un tipo de cambio fijo.

Para las instituciones un peso cubano equivale a un peso convertible. Dicho tipo de cambio se encuentra extremadamente sobrevalorado. Una característica esencial de la política cambiaria para las instituciones es que no pueden comprar pesos convertibles o divisas extranjeras con los ingresos en pesos cubanos. El peso cubano no tiene convertibilidad en el sector empresarial. El tipo de cambio del peso cubano sólo funciona para propósitos contables.

Hay muy pocas posibilidades de arbitraje entre las tasas de cambio debido a que las empresas no pueden acceder a las casas de cambio. Los volúmenes de cambio que se manejan en las operaciones de Cadeca y la restricción de que sólo se hacen en efectivo mantienen fuera de este mercado a la empresa; además de que está prohibido, obviamente.

Tales características del mercado cambiario ayudan a explicar por qué aún hoy, después de haberse desdolarizado la economía, haberse controlado la inflación y recuperado una senda positiva de crecimiento, se mantiene la dualidad monetaria.

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En este sentido, se demandan las siguientes acciones: 1) devaluar el tipo de cambio del peso cubano en el sector empresarial, 2) unificar dicho tipo de cambio con el tipo de cambio de la población, y 3) darle convertibilidad al peso cubano en el sector empresarial.

Generalmente, los análisis que se hacen acerca de la dualidad monetaria en Cuba tienden a asociarla con la desigualdad en los ingresos. Sin embargo, los problemas en la distribución de los ingresos no parecen ser un fenómeno monetario. Cada uno responde a diferentes causas y la solución de uno no lleva necesariamente a la solución del otro. Una evidencia empírica de que el tipo de moneda no condiciona las desigualdades, se tiene en el hecho de que se mantuvieron después de la desdolarización.

En general, las desigualdades en Cuba parecen tener como determinante fundamental los bajos salarios, los cuales a su vez, están condicionados por la baja productividad en el sector estatal tradicional. Otra causa significativa de las desigualdades son las ilegalidades.

Realmente, los mayores beneficios directos de la eliminación de la doble moneda estarían asociados al funcionamiento del sector productivo.

La sobrevaloración de la tasa de cambio oficial del peso cubano distorsiona casi toda medición económica que se haga, desde los distintos balances contables de las empresas hasta el cálculo del PIB. El excesivo valor del peso cubano mantiene artificialmente rentable a un grupo de empresas e injustamente irrentable a otro, sin que exista una verdadera relación entre rentabilidad y eficiencia. Afecta a los exportadores debido a que se contabiliza menos de un peso cubano por cada dólar de exportación ingresado.

Erradicar la doble moneda eliminaría segmentaciones y contribuiría a crear nuevos encadenamientos entre las instituciones, fortalecería el mercado interno, afloraría subsidios e impuestos que están incorrectamente asignados y ampliaría los espacios para la inversión extranjera.

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Cuba Sets Communist Party Congress and Commutes Death Sentence

Cuba's Communist Party congress will be convened in 2009 for the first time in over a decade. The congress, held to elect the Central Committee and set general party guidelines, is supposed to be held every five years according to the Party's internal statutes. Raúl Castro stated that the 2009 congress will map out the country's political and economic future. The meeting will also decide what role Fidel Castro will hold in the party. The last congress was held in 1997, with the 2002 congress postponed without explanation.

In addition, Castro announced that the government was commuting the death sentence to prison terms of 30 years to life. He reinforced, however, that capital punishment will remain in the penal code as a deterrent to "imperialist mercenaries" who breed real terror on the island. This is the latest in a wave of prominent social changes the Cuban president has made since officially taking over office in February, including allowing cell phone ownership and signing human rights declarations. Buying and selling property remains prohibited.

EVENTS

FOCAL to testify at the House of Commons
Standing Committee on International Trade

Ottawa, ON
Rescheduled - date TBA. Please check FOCAL website.
FOCAL analysts Vladimir Torres and Alexa Barrera will testify in support of the Canada-Colombia Free Trade Agreement. This event is open to the public. For more information, contact **pmoore@focal.ca.**

Civil Society Hemispheric Forum
Miami, FL
May 1-2, 2008
Analysts Racquel Smith and Vladimir Torres were invited to take part in this successful forum to discuss enhancing civil society participation in the Summit of the Americas. For more information, contact **rsmith@focal.ca**.

ANNOUNCEMENTS

FOCAL's Indigenous Governance Project has officially come to a close. Final project reports will be available shortly on the FOCAL website. We thank all of our colleagues who were involved in this important project and hope that similar endeavours can be explored in the future.

Write for FOCALPoint

Articles between 700-1000 words in English, French or Spanish are welcome. All submissions are on a volunteer basis and must be exclusive to FOCALPoint. For full submission guidelines, please contact **pmoore@focal.ca** or visit **www.focal.ca**.

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