

Iraq's Private Sector Takes Lead in New Reform Initiatives

Despite difficult conditions, Iraq's private sector has responded positively to efforts to help it rebuild civil society in Iraq, but the damage of three decades of Baathist rule provides only a minimal foundation to build upon.

CIPE's activities in Iraq in support of private sector efforts include conducting capacity-building programs for business association leaders and for Arab journalists. Direct financial and technical support for Iraqi partner organizations – including a pro-democracy newspaper, an economic think tank, and a women's leadership group – has enabled Iraqis to assume an active role in the reconstruction.

Through their participation in CIPE-sponsored regional programs, such as a recent advanced business association development program held near the Dead Sea in Jordan, Iraqis have begun a two-way exchange of ideas. CIPE Program Officer Nick Nadal observed that, "although other Middle Eastern governments have responded coolly to events in Iraq, our Arab reform partners have definitely been emboldened in their own efforts by the progress they see in Iraq."

Identifying the Baseline

"After three decades of state domination of the Iraqi economy, small- and medium-sized businesses in that country are poised to rebuild Iraq's private sector," according to a CIPE-sponsored survey conducted by the Iraqi-American Chamber of Commerce and Industry. The survey, released last fall, gathered views on economic conditions and the outlook for private enterprise from 400 small business owners and managers in 20 Iraqi cities and smaller towns. (The full survey report is available on-line at http://www.cipe.org/pdf/iraq_survey_final.pdf.)

As the first survey of its kind, it painted a portrait of an economy where the pursuit of government subsidies supplants market incentives as the driving force behind business decisions.

According to the key findings of the survey, Iraq's small entrepreneurs overwhelmingly predict a stronger economy in the short term. Net employment was damaged by the recent conflict, but small enterprises fared better than medium-sized firms. The majority of firms (including a

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President Unveils "Forward Strategy of Freedom" at NED Event

Speaking at the U.S. Chamber of Commerce to commemorate the 20th anniversary of the National Endowment for Democracy, President George W. Bush called for

a "forward strategy of freedom in the Middle East." The announcement of this new element of U.S. foreign policy explicitly recognizes the link between democratic institutions and international stability.

President Bush told the guests of the NED that "Your mandate was important 20 years ago; it is equally important today."

Similar supportive statements were made by a bipartisan delegation of congressional leaders including Senator Evan Bayh,

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Photograph by Ian Wagreich

President Bush speaking at the NED's 20th anniversary.

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1155 Fifteenth Street NW • Suite 700 • Washington, DC 20005 • USA

ph: (202) 721-9200 • web: www.cipe.org • e-mail: cipe@cipe.org

Board Member's Column by Peter Walters

The younger generation throughout the Middle East is coming of age under economies that offer limited opportunity for the future. In order for this generation to live up to its full potential, they must embrace the values of entrepreneurship, take charge of their futures, and press for needed reforms from their governments.

In most Middle Eastern countries, about 40% of the population is under 18 years of age.

This surge in population must soon come to grips with the economic realities of the region. With national economies dominated by state-owned enterprises and many countries overly reliant on oil revenues, economic growth has been slow or flat for years. Foreign investment and multinational corporations exist, but the domestic business community is hindered by arcane rules and regulations and constitutes only a fraction of the economy.

Because of inadequate public education, a high percentage of skilled jobs are filled not by Arabs but by imported workers from Europe, Asia, and the United States. An unemployment rate of 25% or more among adults is not uncommon.

Today's Arab youth look ahead and see a bleak future where a high school diploma – or even a university degree – does not guarantee a job.

This demographic crisis destabilizes the region, and the institutional barriers to development in the Middle East are robbing a generation of its opportunity to succeed.

For too long we've waited for Middle Eastern governments to liberalize their economic systems. The doors to reform have been opened, but the challenge is to realize real results in time to meet the demands of the next generation.

As an employer in the region, I have witnessed firsthand how politically and economically disenfranchised the younger generation has become. But on a recent trip to

Egypt, I saw reason for optimism.

What can be done?

In Egypt, I had the privilege of meeting with members of the Efham Youth Network. This dynamic organization of students and young leaders is spreading a message of entrepreneurship to nontraditional constituencies: the poorest areas of Egypt. Efham's interactive sessions teach how the values of personal responsibility, risk-taking, and self-reliance provide a path out of poverty. Rather than relying on government services and waiting for employment through a state-owned enterprise, the youth of Egypt have the option of building their own futures.

I was impressed that the most receptive audiences seemed to be found in the poorest regions. Even in enclaves where religious fundamentalism limits opportunities for women, Efham's use of Internet resources provided them a discreet way to learn more.

Efham's efforts are tackling the difficult issue of poverty, building a constituency for economic and political reform, and training the next generation of Egyptian leaders, but most importantly, they provide hope to a disaffected population. My most lasting impression of Efham, under the leadership of Randa Zoghbi, CIPE's Program Director in Egypt, was the absolute enthusiasm and even passion expressed by the students as they delivered entrepreneurial concepts.

The ultimate solutions to the conflict between a stagnant economy and Egypt's booming population are to be found in Egypt itself. Its people are its greatest resource and given the tools to succeed, the ultimate potential is enormous.

Peter S. Walters
Guardian Industries Corporation

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China Protects Private Property Rights in Constitution

In December, China's ruling party publicly announced that the Chinese Constitution would be amended to afford legal protection to private property for the first time under the Communist system. Chinese reformers have welcomed this move as a recognition of the rights of individuals and a subtle acknowledgement that the rule of law in China must be strengthened in order for China to develop.

Although the move is widely considered necessary to continue China's economic expansion, the new protections for private property reveal the Chinese government's capitulation to political pressure from the growing middle and upper classes comprised of Chinese entrepreneurs.

The proposed amendment, approved during the Chinese Communist Party's October meeting but not publicly disclosed until December when it was submitted

meeting concluded but before its decisions were announced, CIPE published the first English translation of Cao's constitutional recommendations in the article "Ten Proposals for a Better Chinese Constitution."

China's current constitution, adopted in 1982, recognized the existence of private economic activity as a "complement to the socialist public economy," but the existence of privately-owned property was not legally acknowledged until a 1988 amendment. The pending proposal would extend a level of legal protection to private property.

Critics question whether the inclusion of the phrase "obtained legally" affords any actual protection for property rights since it gives the Chinese courts leeway to invalidate ownership.



Cao Siyuan speaks on the importance of property rights to China's development.

Cao Siyuan's Short-Term Proposals for Constitutional Reform

- 1 Renounce the "dictatorship" and embrace the rule of law
- 2 Establish the supremacy of civil rights and the transparency of public policy-making
- 3 No exceptions to multiple-candidate elections
- 4 No arbitrary designation of the primary form of economic ownership
- 5 Equal protection for public and private property rights
- 6 Full protection for the rights and liberties of citizens
- 7 Adoption of the presumption of innocence
- 8 Establishment of a Constitutional Review Commission
- 9 Adoption of a presidential system
- 10 Enduring judicial independence

to the legislature for adoption, states that "private property obtained legally shall not be violated." Formal ratification took place in March.

Prior to the October meeting of the Chinese Communist Party, leaders from China's business and academic communities exchanged ideas for reform at a conference in Quindao convened to provide unsolicited public input into the closed party process. Conference organizer Cao Siyuan, a leading Chinese economist and an outspoken advocate of property rights, moved the dialogue beyond the anticipated agenda by outlining an ambitious twenty-point plan calling for ten short-term amendments and ten medium-term changes including direct elections for deputies to the National People's Congress and President, freedom of religion, a free press, freedom of speech and association, and a restructuring of local governments.

Following the release of his conference paper, Cao, who was imprisoned for a year following the Tiananmen Square pro-democracy demonstrations of 1989, reported increased surveillance from government authorities attempting to discourage his public outspokenness.

Immediately after the Chinese Communist Party's

However, the Chinese Communist Party's chosen wording reveals a deeper concern about corruption and the government's ability to fairly and transparently privatize some state-owned enterprises. The privatization of state assets in Eastern Europe and the former Soviet Union after the fall of Communism resulted in profiteering by well-connected industrialists and bribe-seeking government officials at the expense of national economic health and effectively discredited the process. China hopes to avoid such complications.

Ironically, the lack of property rights in China has fueled official corruption. The arbitrary seizure of land and valuable assets creates constant concern for the private sector. The absence of independent courts and respect for the rule of law has forced entrepreneurs to rely on bribes and "facilitation payments" to protect their investments of capital and labor from being confiscated.

Recent high profile prosecutions of corrupt officials and the current movement to establish private property rights in the Chinese Constitution represent first steps towards instituting the rule of law, but the long-term benefits of these efforts depend on how strongly the government intends to honor them. ■

Russian Advocacy Initiative Produces Legislative Changes

CIPE's three-year, USAID-sponsored program to develop the advocacy skills of local business associations in Russia has already produced tangible results in its first year. According to reports from CIPE's partner organizations, local legislatures or city officials in all eight targeted regions have formally adopted recommendations put forward by the associations.

In cooperation with the Chamber of Commerce and Industry of the Russian Federation (RCCI) and the Union of Business Associations of Russia (OPORA), CIPE is working directly with local private sector associations in eight regions across Russia to develop their advocacy skills, to encourage coalition building, and to furnish technical assistance for the drafting of regional economic reform agendas.

One key programmatic element benefiting associations outside of the targeted regions is an on-line information clearinghouse, the Russian Enterprise, Association and Chamber Terminal (REACT), which provides access to information on advocacy and creates a network of institutions striving to improve the business climates in their regions. The website is available at www.react.ru.

Irkutsk Region (coalition of 8 associations)

The Irkutsk regional Legislative Assembly adopted the Irkutsk coalition's "Program of Support and Development of Small Business in the Irkutsk Region (2003-2005)" in September 2003.

Khabarovsk Region (coalition of 10 associations)

The Khabarovsk coalition developed recommendations for the introduction of a "single window" procedure for small business registration to reduce administrative barriers and simplify the paperwork process. Khabarovsk's mayor signed a decree adopting the "single window" procedure on November 30, 2003.

Krasnodar Region (coalition of 26 associations)

The Krasnodar coalition led an advocacy campaign in support of retail businesses that had temporarily lost their retail space due to reconstruction of certain public areas. In July 2003, the regional Administration issued a decree amending the previous regulations to provide retail

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President Bush Speaks at NED Event

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Senator Sam Brownback, Congressman Tom Lantos, and Congressman Chris Cox. In October 2003, the House and the Senate joined in passing a concurrent resolution recognizing the NED's 20 years of support for grassroots programs that have contributed to the global spread of democracy.

In his remarks, President Bush identified liberty and democracy as the surest path to national progress and not, as some critics maintain, the final stage of development: "[Democracy] teaches cooperation, the free exchange of ideas, and the peaceful resolution of differences. As men and women are showing, from Bangladesh to Botswana, to Mongolia, it is the practice of democracy that makes a nation ready for democracy, and every nation can start on this path."

Democracy in the Muslim World

Turning his attention to the current situation in the Middle East, Bush reiterated President Ronald Reagan's statements from his 1982 speech outlining what would become the NED. Reagan declared that it was "cultural condescension" to claim that the people of any particular culture are not "ready" for democracy. Pointing out that more than half of the world's Muslims live under democratically elected governments – including in such Muslim-majority countries as Turkey and Indonesia – Bush

declared that the lag in development in the Middle East and North Africa "are not the failures of a culture or a religion. These are the failures of political and economic doctrines."

In a pointed critique of past U.S. relations with the countries of the Middle East, President Bush remarked that "Sixty years of Western nations excusing and accommodating the lack of freedom in the Middle East did nothing to make us safe – because in the long run, stability cannot be purchased at the expense of liberty."

Economic Freedom Highlighted

Addressing the role of economic freedom in producing political freedom, President Bush remarked, "Historians will note that in many nations, the advance of markets and free enterprise helped to create a middle class that was confident enough to demand their own rights." Applying that lesson to China, Bush added that "Eventually, men and women who are allowed to control their own wealth will insist on controlling their own lives and their own country." ■

Video of the entire event and a transcript of President Bush's complete remarks are available on CIPE's website at http://www.cipe.org/whats_new/events/webevents/NEDanniversary.htm

Russian Advocacy

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businesses affected by the reconstruction with retail space in the same municipal district as their permanent location.

Perm Region (coalition of 7 associations)

The Perm coalition developed recommendations aimed at reducing tax rates paid by owners of pavilions, stands, and kiosks regarded as permanent retail spaces but that do not have a sales area. In August 2003, the Perm coalition's recommendations were incorporated as amendments to the regional law "On Taxation in the Perm Region."

Primorsk Region (coalition of 9 associations)

In May 2003, the Vladivostok Administration amended its earlier decree allowing variable rental rates for municipal premises after an advocacy campaign by the Primorsk coalition.

Samara Region (coalition of 6 associations)

After an advocacy campaign led by the Samara coalition in August 2003, the Samara Regional Duma adopted amendments to the regional tax law, that cut the

tax rates in half, resulting in the emergence of individual entrepreneurs from the shadow economy into the formal sector.

Saratov Region (coalition of 7 associations)

The Saratov coalition led an advocacy campaign to amend the regional tax law on imputed income. Saratov's Regional Duma adopted the suggested amendments, thus considerably reducing the tax rates.

Volgograd Region (coalition of 6 associations)

The Volgograd coalition advocated for amendments to the regional tax law on imputed income which were adopted by the regional Duma in May 2003. In September 2003, the regional Duma adopted amendments to the regional law that increased the timeframe for labor contract submissions from 3 to 12 days and reduced the number of required documents. Also in September 2003, a regional decree regulating licensing of pharmacies was amended based on the coalition's recommendations for simplifying the procedure. ■

Iraqi Private Sector Leads Reform Efforts

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majority of those that lost workers) planned to expand in the next six months. Current information on employment in Iraq confirms this finding. Major barriers to economic development include uncertainty over the lack of laws, insufficient access to credit, and unreliable electricity.

Organizing the Private Sector

Representatives of 27 Iraqi business associations met with American association experts during a capacity-building program in mid-December. Designed to prepare private sector leaders to serve as advocates for reform in a democratic environment, over 100 participants learned the fundamentals of modern association management, including membership development, strategic planning, and public relations.

As one participant noted, "In the past, Iraq's business associations existed only as adjuncts of the government under Saddam, with mandatory membership dues indistinguishable from taxes. Voluntary membership is a fresh idea for Iraq's private sector and a necessary step to building participatory institutions that reflect the interests of the people."

After presentations on communication skills and the need for economic information in Arabic, side discussions on the liberalization of the economy produced an intense debate on the new responsibilities of the private sector as Iraq develops a market economy.

Building Journalism Skills

More than 30 Iraqi print and broadcast journalists explored the fundamental issues necessary for understanding Iraq's economic situation during a two-day professional skill-building workshop conducted by Baghdad University and CIPE at the end of December.

"Two decades of Saddam Hussein's rule has resulted in an economy perverted by the Baathist regime's cronyism and endemic corruption. Without a free press to expose the diversion of public assets for private gain, Iraqis suffered," stated Nadal.

According to CIPE Executive Director John D. Sullivan, "In places where open discussion of political issues is still proscribed, business and economic news proves to be a good incubator of the values of the free press because good business reporting requires critical thinking and rewards accurate information."

Reporters engaged in open exchanges on the need for objectivity in reporting and the role of the media in promoting proper governance and accountability in Iraq.

Nadal pointed out that discussions "quickly flowed from theory to practice as participants applied lessons learned to the stories they are covering now – such as analyzing the price and availability of fuel on Baghdad's streets in terms of supply and demand instead of seeing it as a government decision." ■

Tanzania Advocacy Program Concludes with Positive Results

“The regional government leadership is putting in all efforts to make sure that the public-private partnership becomes a success story,” according to local press reports accompanying the conclusion of a two-year public policy advocacy project in Tanzania. The program, sponsored by USAID and Pact and conducted by CIPE, led the local business community in six regions of Tanzania through the steps of designing and implementing advocacy campaigns.

When CIPE set out to train Tanzanian business associations in basic management and advocacy in 2002, few associations engaged the government in a public policy dialogue because they did not see how business could have an effective voice in the process. Now, two years later, business associations in six regions of Tanzania are giving input to their local

governments on laws that affect them directly, and the government is listening.



Tanzania's TAPP Program has attracted positive attention from the local press as evidenced by this recent story in The Guardian.

President Benjamin Mkapa said, “[The] government has taken relations between itself and the private sector to not just develop a supportive relationship, but a working partnership . . . we recognize we are on the same team; we win together or we lose together.”

Led by the local offices of the Tanzania Chamber of Commerce, Industry, and Agriculture (TCCIA), coalitions of business associations in each region conducted business roundtables to identify specific issues affecting the private sector in their regions and developed policy position papers to

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Kazakhs Appeal to Parliament, President for Relief

At a recent press conference, Victor Yambaev, head of Almaty Association of Entrepreneurs (AAE), recited the newly released list of items that required special government licensing: “Women’s slippers, stockings, pajamas, cotton men’s briefs, nylon men’s briefs, brassieres . . .” After stopping to take off his glasses, he announced, “This is the pettiness that occupies our government’s time!”

The press conference followed a lengthy public campaign to build support for easing government regulations that stunt private sector development and foster corruption. AAE formally presented its recommendations on improving the business climate at the 11th Annual National Forum of Entrepreneurs held in the capital of Astana on October 31.

Chief among the concerns of the business community are the Administrative Code’s presumption of “guilty until found innocent” and fines disproportionate to the violations. In a survey conducted by AAE, 60% of small businesses indicated that the numerous unjustified inspections by state authorities pose the greatest obstacle to doing business in Kazakhstan. In addition to the burden the Administrative Code places on small businesses, coercive inspections also serve as the basis for corruption and extortion by the government inspectors. This survey identified tax inspectors, public health, and fire departments as the greatest violators.

In order to combat abuses of power, the AAE is seeking

more clearly defined jurisdictions for each state agency and penalties for inspectors found to be misusing their authority for personal gain.

Kazakh President Nursultan Nazarbaev, a regular participant at the Forum, voiced support for the concerns of the business leaders: “The private sector is the locomotive for economic growth and must not be treated as a milking cow, but rather as a sacred cow.”

However, presidential support did not translate into parliamentary success. During its late December session, the Kazakh Parliament failed to adopt the majority of the business community’s recommendations.

Because Kazakh law allows for the Administrative Code to be revised only twice a year, the small- and medium-sized enterprise sector in Kazakhstan is redirecting its advocacy efforts at the presidency. On January 30, the AAE convened a meeting of entrepreneurs and followed it with a broadly televised press conference where they appealed directly to President Nazarbaev to use his executive powers to help ameliorate the worst parts of the Administrative Code.

President Nazarbaev, whose periodic suspensions of all government inspections have given entrepreneurs some temporary relief in the past, is expected to ask Parliament to reconsider changes to the Administrative Code ahead of schedule. ■

Tanzania

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communicate concerns with elected officials. Public-Private Dialogue Conferences brought together leaders of the private sector and local government officials – for the first time in many cases – to discuss the mutual benefits of working together in the policy-making process.

One of the program's many concrete successes has been the appointment of a local TCCIA chairman to a special committee created by the Regional Commissioner. The committee will prepare for the upcoming regional investment promotion forum and help create a favorable business environment in the region.

To ensure a continuing dialogue with the government, participants at the concluding Lessons Learned Workshop compiled a toolkit as a step-by-step guide for business associations conducting advocacy initiatives.

Participants also created action plans to continue their advocacy efforts after the conclusion of the current project. One workshop participant commented, "I am now going back with a lot of knowledge learned from the workshop about advocacy, for further improvement of advocacy campaigns in my region." ■

CIPE Grantee's Advocacy Program Wins Award

The Almaty Association of Entrepreneurs (AAE) in Kazakhstan received an honorable mention in the American Society of Association Executives' (ASAE) "Associations Make a Better World" contest. The contest, now in its second year, recognizes outstanding examples of association activities that make a significant contribution to societies and economies worldwide. AAE's program to reduce corruption and administrative barriers to entrepreneurship was recognized in the advocacy achievement category for increasing transparency in the enforcement of government regulations.

John C. Donaldson, ASAE's Manager for Executive Management and International Sections, commented, "The success of the Almaty Association of Entrepreneurs in promoting parity between small businesses and government inspectors perfectly illustrates the role associations can play in improving their societies." ■

News in Brief

Central American Partner Appointed to Guatemalan Cabinet

In January the newly elected president of Guatemala, Oscar Berger, appointed Maria del Carmen Acena, executive director of CIPE's Central American partner the National Economic Research Center (CIEN), as his Minister of Education. CIEN, a think tank with associates from several Central American countries, has been actively developing an economic reform agenda for the region.

During President Berger's inauguration, CIEN's regional business agenda project director Hugo Maul also met with Enrique Bolanos, former CIPE partner and current President of Nicaragua, and presented him with a copy of the document. ■

Youth Anti-Poverty Forum Held in Egypt

An anti-poverty forum held in Fayoum, Egypt, at the end of December focused on the role of the private sector in creating economic opportunities for Egypt's disaffected youth population. The forum, co-sponsored by the Fayoum Businessmen Association, CIPE's Egham Youth Network, and Cairo University, specifically addressed the concerns of the youth of Fayoum, Egypt's second poorest and least literate governorate. Participants discussed how a lack of civic engagement perpetuates the region's poverty despite its strategic location, its tourist attractions, and its demographic and agricultural potential.

"Moral, volunteer, scientific, and democratic participation is our only way to overcome the serious problem of poverty," wrote roundtable participant Ibrahim El Bahrawy in the Arabic newspaper *El Wafid* following the forum. ■

CIPE Contributes to Bolivian Anti-Corruption Program

CIPE's Senior Program Officer for Latin America, John Zemko, traveled to Bolivia last fall at the request of the U.S. Department of State to speak on private sector strategies for combating corruption. He addressed business groups in three cities: La Paz, Cochabamba, and Santa Cruz. In addition to positive feedback from the immediate audiences, the talks received favorable coverage in the local media. ■

The Center for International Private Enterprise is an independent, non-profit affiliate of the U.S. Chamber of Commerce and one of the four core institutes of the National Endowment for Democracy. CIPE has supported more than 800 local initiatives in over 90 developing countries, involving the private sector in policy advocacy, institutional reform, improving governance, and building understanding of market-based democratic systems. CIPE programs are also supported through the United States Agency for International Development.

Overseas Report
Editorial Staff

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Executive Director

Jeffrey Vanness
Public Liaison

Sarah Olsten
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Firend Zora
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Nobel Laureate Headlines Latin American Conference

Economist Douglass North, winner of the 1999 Nobel Memorial Prize in Economics for his career studying the effects of institutions on economic development, emphasized the importance of incorporating local knowledge into solutions for Latin America's continuing economic and political problems during a conference on transaction costs held in Brazil on December 12-13. North remarked that "to design effective reform policies, we must understand the cultural heritage and historical background. . . . Although the rules may be changed overnight, the informal norms usually change only gradually."

North's remarks came during his keynote address at a conference jointly sponsored by CIPE, the Ronald Coase Institute, and the University of Sao Paulo. Participants included representatives of 13 CIPE partner organizations from leading think tanks and research institutes in Latin America.

The meeting addressed the central question of "How can poor countries change the damaging institutions that inhibit growth and deny people opportunities to improve their welfare?" North attributed the failure of past efforts, including the "Washington Consensus" approach, to the false assumption that the countries of Latin America had functioning markets in line with neo-classical economic theory.

According to North, the challenge is "to know how to create efficient markets – not only economic markets, but first of all political markets, because . . . it is political markets that first put in place the economic rules of the game and enforcement. So if you don't have a policy that, in turn, is going to encourage putting into place sufficient property rights and a judicial system, you're not going to get them."

Conference participants identified reducing the size of the informal economic sector, tackling rampant corruption, and increasing transparency in corporate structures as the key challenges in the region that need to be addressed by a new reform agenda.

The public conference followed a six-day workshop where 20 promising young academics from Latin America and the Caribbean worked closely with leading American economists to develop new tools for studying the local barriers to building a market economy and to discuss why past reforms have worked or failed in local environments. Participants learned how to incorporate the concepts and methodology of institutional analysis into their own research and how to effectively present their findings for feedback and guidance.

Research topics ranged from the effects of arbitrary decision-making by Brazilian judges to analysis of how unwritten contracts govern street vendors in Buenos Aires to comparisons of the privatization of prisons in the United States and Latin America.

Following the intensive workshop, the Ronald Coase Institute and the University of Sao Paulo presented their new transaction cost tool that they developed to a larger audience of economic and political reformers at the general conference.

CIPE Executive Director John D. Sullivan and Senior Program Officer for Latin America and the Caribbean John Zemko led small group discussions exploring how the new transaction cost methodology can be integrated into future projects to produce a greater understanding of the political impediments to social development and, ultimately, increase the efficacy of reform efforts. ■



Nobel Prize-winning economist Douglass North in Sao Paulo.



Center for International Private Enterprise
1155 Fifteenth Street NW · Suite 700
Washington, DC 20005
USA