



# Inter-American Dialogue

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### Featured Q&A With Our Board of Advisors

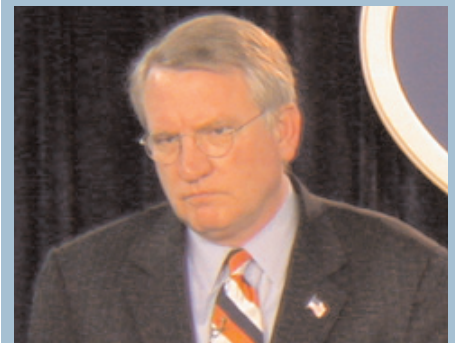
**Q Argentine President Nestor Kirchner on July 25 fired Justice Minister Gustavo Beliz amid rising crime and popular frustration with Kirchner's apparent tolerance of disruptive protests by piqueteros in Buenos Aires. What are the main challenges Kirchner faces in trying to establish law and order in Argentina? Do you foresee a crackdown on the piqueteros?**

**A Guest Comment: Javier Corrales:**  
"To improve the rule of law, President Kirchner must focus on improving the professionalism of two institutions—law enforcement agencies and the judicial system. Reforming these institutions is difficult because both are captured by vested interests that profit economically and politically from the status quo. For instance, law enforcement agencies in the province of Buenos Aires, where crime and police impunity are high, are believed to operate under the influence of former President Eduardo Duhalde, Kirchner's leading nemesis within his party. Kirchner could very well conclude that reforming these institutions is politically difficult and thus not worth the effort. If so, he may be tempted to crack down on piqueteros as a way to divert attention from his failure to pursue institutional reform. However, this choice could backfire. Although there is no question that the climate of public opinion toward piqueteros has become far less sympathetic than three

years ago, Argentines, especially on the left, have a very low appetite for state repression. A crackdown is likely to lower the popularity of the president, already down by 20 points since its peak. Kirchner thus faces a difficult political choice. If he cracks down on the piqueteros, he could lose support in public opinion and from leftwing sectors without necessarily containing the violence. If he cracks down on the police, he could antagonize key leaders in his party, which could be a recipe for turmoil, but with some potential payoffs in terms of popularity and improved security."

*Continued on page 4*

### PHOTO OF THE DAY



John Walters, director of the White House's Office of National Drug Control Policy, yesterday urged continued US support for antidrug efforts in Colombia. See related news brief on page 2.

*Photo: US Department of Justice.*

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## NEWS BRIEFS

**US Should Continue Support for Antidrug Program in Colombia**

The US should continue funding a five-year, \$3.3 billion counterdrug program in Colombia despite indications the program has not affected the supply of cocaine in the US, the director of the White House's Office of National Drug Control Policy, John Walters, said Thursday. Walters urged continued support for the program despite no sign of change in street prices for cocaine. "We have a history in the United States of not following through on programs like this," Walters said.

Source: Associated Press.

**Zoellick Asks Daschle to Drop Opposition to WTO Agreement**

The Bush administration on Thursday urged Senate Minority Leader Tom Daschle (D-SD) to drop his opposition to a framework global trade agreement that proposes an end to farm subsidies. "I urge you to reconsider your position and support the mainstream of American agriculture," US Trade Representative Robert Zoellick wrote in a letter to Daschle. The senator this week criticized the agreement reached last weekend by the World Trade Organization's 147 member states, saying proposed reductions in domestic farm subsidies "could devastate our nation's farmers."

Source: Reuters.

**Economic Activity in Chile Grew 5.0 Percent in June**

Chile's IMACEC economic activity index rose 5.0 percent in June from the same month of 2003, according to preliminary data. Activity in June was down 0.3 percent from May. For the first six months of the year, the index rose 4.8 percent year-on-year.

Source: Central Bank.

## Economic News

**ECLAC Revises Upward Growth Forecast for Latin America**

The United Nations' Economic Commission for Latin America and the Caribbean (ECLAC) on Thursday forecast a solid regional economic growth rate of 4.5 percent. In a report, the Santiago, Chile-based ECLAC revised upward its earlier prediction of 3.8 percent regional growth as well as the outlook for most of the individual economies in the region. The Commission said the regional acceleration is fueled primarily by a 9 percent growth in exports aided by the recovery of some of the world's largest economies, particularly the US and China. "The growth in the world economy in the 2003-2004 period has been reflected in demand that has a positive influence on the

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*ECLAC said the regional acceleration is fueled primarily by a 9 percent growth in exports aided by the recovery of some of the world's largest economies.*

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economies of Latin America and the Caribbean. This is especially important in terms of the imports from the United States and China," ECLAC said, according to Reuters. ECLAC's executive secretary, former Argentine economy minister Jose Luis Machinea, noted, however, that the region's exports continue to be dominated largely by natural resources rather than manufactured industrial goods. The agency said Venezuela and Uruguay are expected to lead the region with 12 percent and 9.5 percent growth rates, respectively, followed by Argentina with 7.1 percent, according to the Associated Press. The three countries are all recovering from economic recessions. Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Nicaragua, and El Salvador are expected to post healthy economic growth, ECLAC said. Crisis-wracked Haiti and the debt-laden Dominican Republic are the only countries whose economies are predicted to contract.

**Mexican Senate Approves Pension Reforms for IMSS Workers**

In a rare legislative victory for Mexican President Vicente Fox, the Senate on Thursday approved a bill to reduce pension benefits for future employees of the government's Social Security Institute (IMSS), Reuters reported. Passage of the bill, which was approved by the lower house last week, is expected to have little fiscal impact, but could signal a push for broader reforms of the country's pension system. Fox warned yesterday that Mexico's pension system was "unsustainable" without additional reforms. He said the government's 2005 budget could be "very austere" since "it is being affected in an extraordinary way precisely because of pensions." In a research note this morning, investment bank UBS called passage of the IMSS pension reform bill "excellent news," but noted that additional reforms could

face stiff opposition amid union-led protests. Earlier this week, hundreds of IMSS workers staged protests in Mexico City, blocking traffic, and on Wednesday blockaded street access to the Senate building where the vote was to take place. Most members of the opposition Institutional Revolutionary Party, which has blocked most of Fox's economic reforms in Congress, voted for the reform.

## Political News

**Terrorist Group Warns El Salvador Against Sending Troops to Iraq**

A group claiming to have ties to the international terrorist network al Qaeda on Thursday threatened to stage attacks in El Salvador if the Central American country sends a new contingent of troops to Iraq, Reuters reported. "Dispatching any troops from El Salvador would be a declaration of

war against Iraq's Muslim people, prompting us to launch war against you and move the conflict inside El Salvador," read a statement from a previously unknown group calling itself the Mohammed Atta Brigades-al Qaeda of Jihad, named after a leader of the hijackers who carried out the September 11, 2001 terrorist attacks in the US. "No citizen will enjoy security in El Salvador as soon as any soldier arrives in Iraq ... And do not hold us responsible for bloodshed in El Salvador as we have cautioned you against taking such a step," the statement continued. Last month, following a heated debate, El Salvador's legislature approved sending 380 troops to support US-led forces in Iraq. President Antonio Saca, who will send the troops in two weeks, reacted cautiously to the threatening note, saying its authenticity had not been verified, and asserted his country's commitment to fighting terrorism, according to local daily *La Prensa Grafica*. Last year, El Salvador sent to Iraq a first contingent of 360 troops, who were relieved in February by a second contingent of 380 troops. It is the only Latin American country committed to keeping soldiers in Iraq, following troop withdrawals by the Dominican Republic, Honduras, and Nicaragua. Terrorist groups opposed to the presence of the US-led force in Iraq have sought to scare away partner nations participating in the force by threatening their citizens. Last month, the Philippines withdrew its small contingent to save a kidnapped national threatened with death.

## Company News

### Embraer Seeks to Acquire Stake in Portugal's OGMA

Brazilian aircraft-manufacturer **Embraer** aims to buy a large stake in **OGMA**, the Portuguese state-owned military aircraft maintenance firm that recently announced its plans to privatize. The bid by Embraer, the world's fourth-largest jet-maker, is part of its plans to expand into European Union and US markets, Reuters reported. Embraer said OGMA has not yet presented any offers in response to its bid. The Portuguese government seeks to sell

## The Dialogue Continues

### *A continuation of the August 4, 2004 Q&A*

**Q** The director of monetary policy at Brazil's Central Bank, Luiz August Candiota, resigned last week amid allegations of tax evasion against him and Central Bank President Henrique Meirelles, who also now faces accusations of failing to report to the government's ethics commission a company he created last October. How have the spate of allegations affected the Bank's credibility? Will they have any impact on efforts to make the Bank independent?

**A** Guest Comment: **Armando Castelar Pinheiro**: "It will likely take many years until we find out whether Messrs. Meirelles and Candiota are guilty or not of the faults they have been accused of. By then, probably few people will remember who they were. Thus, as important as this may be, the innocence or guilt of the president and former director of the Central Bank is not the central issue at stake in the political turmoil that has emerged from the allegations raised by Brazilian weekly magazines *IstoE* and *Veja*. In the short run, politics is what matters. Until Mr. Meirelles is able to convince public opinion that there was no wrongdoing on his part—proving one's innocence is always harder than it may seem—congressional activities will proceed even more slowly than they have on account of the municipal elections. How long this might last will depend on whether the press comes up

with new allegations of faulty behavior on his part. The selection of targets for these allegations is also of political importance. Three key members of the economic team, if we include Mr. Casseb, president of Banco do Brasil, were all selected by Finance Minister Antonio Palocci from outside the ranks of the PT. It might be a signal that PT hardliners no longer consider the role of these officers necessary, now that the economy is recovering. Is it part of an attempt by the party's left to regain control over economic policy? In the medium term, these facts may make the formal independence of the Central Bank more difficult to approve or force a postponement of such an initiative. But they should not change the core of the debate, which has been largely concentrated on whether a democratically elected government should let go of the control of monetary policy to nonelected officers. Just as damaging will be the even greater difficulty governments should face in recruiting well-prepared professionals from the private sector into occupying key positions in the public sector. It takes a lot of stomach and public spirit to accept the prospect of having one's hard-built reputation smeared with such an ease and disregard for due process."

**Armando Castelar Pinheiro** is an Economist at the Brazilian Ministry of Planning's Institute for Applied Economic Research.

35 to 60 percent of OGMA to a foreign partner by the end of 2004. The US' **Lockheed Martin Corp.**, as well as various Spanish and Portuguese firms, have also expressed interest in OGMA. Embraer is part of a Lockheed Martin-led consor-

tium that earlier this week announced it had won a \$879 million US defense contract to develop a new spy plane. Under the contract, Embraer will provide its ERJ 145 platform for the US Army's future battlefield surveillance system.

**Featured Q&A***Continued from page 1*

**A** **Guest Comment: Victoria Murillo:** "President Kirchner spent the first part of his administration building a support coalition, which included the middle classes as well as those socially excluded by the economic crisis. When dealing with the unemployed workers organized as *piqueteros*, he faces a complex situation. The combination of the dramatic increase in poverty and unemployment levels he inherited generates social demands that cannot be met without compromising fiscal responsibility, while *piquetero* protests alienate the middle classes. The government has tried to avoid resorting to police repression that could easily go out of control as happened to both Presidents de la Rúa and Duhalde, and cost them dearly. No politician can completely control the police, and violence will be socially harmful. Thus Kirchner wants to divide and co-opt the many heterogeneous *piquetero* groups so as to wait for the conflict to peter out rather than escalate as a result of repression. However, and partially due to the increase in crime, also linked to police corruption, the middle classes are increasingly vocal in their demand for law and order. Hence, Kirchner's popularity is starting to decline in the city of Buenos Aires and its suburbs more than in the interior of the country. It seems, though, that he will continue with his current strategy—as shown by yesterday's successful pre-emption of violence derived from the *piquetero* protests—even if taking stronger initiatives in dealing with crime."

**A** **Guest Comment: Ricardo Seeber:** "The main challenges that Mr. Kirchner is facing in trying to establish law and order are to establish a balance between 'prevention' and 'repression' and, because of that balance, that his political allies do not feel betrayed or that there is a change in Mr. Kirchner's political views because of the manner in which these matters are handled. It is important to

mention that one of the foundations of Mr. Kirchner's popularity is what is known in Argentina as a 'guarantee' approach to anticrime policy, versus the so-called *mano dura*. In that sense, the gathering organized some months ago by Juan Carlos Blumberg, whose son Axel was kidnapped and murdered, had an enormous impact, and somehow put the government (and Mr. Kirchner) in a struggle, which is still ongoing. At present, the government cannot find the way to restore not only law and order, but also the authority to eliminate the *piqueteros'* protests. A crackdown on the *piqueteros* would not be realistic."

**A** **Guest Comment: Daniel Artana:** "President Kirchner's main challenge is to accept that there is a difference between repression of people who protest in the streets and putting a limit to what people that protest in the streets can do without violating others' rights. I expect the *piqueteros'* protests to increase because they are having problems finding alternative routes toward political representation (e.g. one *piquetero* leader lost an internal union election), and union leaders are trying to take some people out of them by providing health care (which is administered by the unions in Argentina) to their former workers that became unemployed."

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**Victoria Murillo** is an Associate Professor of Political Science and International Affairs at Columbia University.

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