



# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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

**Q** US Ambassador to Mexico Tony Garza last Friday announced the temporary closure of the US consulate in the border city of Nuevo Laredo amid continued violence by rival drug gangs, calling on the Mexican government to "bring this situation under control." Has violence at the US-Mexico border gotten out of control? Is Mexico doing enough? What can the US do to help Mexico address border insecurity?

**A** Guest Comment: Andres Rozental: "Without wanting to minimize in any way the situation on the Mexican side of the border, I think that the closure of the consulate doesn't help at all, especially when Mr. Garza says that he will evaluate the situation in a week's time to see whether conditions are improved and it can reopen. It is illusory to think that anything significant will be done in such a short period of time, so there must be other motives for the decision to inconvenience thousands of Americans and Mexicans who use consular services each day. The violence at the border is almost entirely related to drug trafficking and organized crime, both of which flourish on both sides of the line. Wouldn't it be more effective and useful for the US government to begin to take seriously the fact that this is a bilateral problem and should therefore be addressed differently than through unilateral headline-grabbing measures that do nothing to ameliorate the situation? There has been an unprecedent-

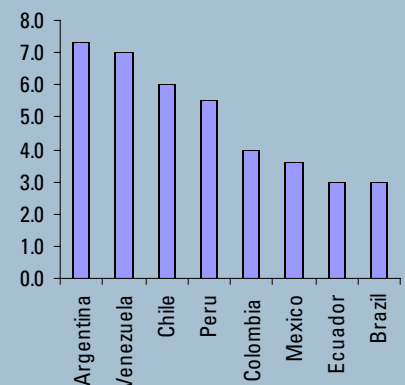
ed level of cooperation between authorities in both countries to wage the fight against crime and violence. Closing a consulate certainly isn't the way to go, especially when the pretext of threats of violence pales in the Nuevo Laredo case when compared, for example to US diplomatic missions, in the Middle East, Haiti or certain African countries."

**A** Guest Comment: Armand Peschard-Sverdrup: "The violence in Nuevo Laredo stems from the turf battle between the Sinaloa and the Matamoros-based Gulf

*Continued on page 4*

### CHART OF THE DAY

Projected 2005 Growth for Select Latin American Countries



See related story on page 2.

Source: ECLAC.

### Inside This Issue

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## NEWS BRIEFS

**Report: Aristide Government Diverted Millions of Public Funds**

The government of exiled former Haitian President Jean-Bertrand Aristide illegally diverted at least \$21 million in public funds into paper companies and Aristide's charities, investigators from the country's interim government say in a report. Most of the funds are unaccounted for, according to the report, which Aristide supporters say is part of a witch hunt.

Source: The Miami Herald.

**Anti-Crime Group: Mexico Leads World in Kidnappings**

Mexico leads all countries, including Colombia and Brazil, in reported kidnappings, local private anti-crime group Citizen Council for Public Safety said Wednesday. There were 194 kidnappings reported in Mexico from January through June, the Council said. That compares to 172 abductions reported in Colombia and 169 in Brazil. "It's an embarrassment for authorities who have tried to convince us crime statistics are falling," Council President Jose Antonio Ortega said.

Source: Associated Press.

**One-Time Gain Boosts Gerdau's Second-Quarter Net Profit**

Brazilian steelmaker **Gerdau**, the biggest maker of rolled steel in the Western Hemisphere, on Wednesday reported a 892.6 million-real (\$US 381.5 million) second-quarter net profit, up 2 percent from the same period of 2004, due to a 305 million-real extraordinary gain from the reorganization of the shareholder structure of two units. Net revenues totaled 5.44 billion reais, up from 5.29 billion reais a year ago, but was down from 5.83 billion reais in the first quarter.

Source: Reuters.

**Political News****Lula Defiant in Face of Scandal, Says Opponents Trying to Weaken Him**

Brazilian President Luiz Inacio "Lula" da Silva said Wednesday that his opponents were using a political scandal to try and weaken him ahead of next year's presidential election, Reuters reported. "There are people who say, 'it's necessary to make him bleed so he's weak when he gets to the 2006 election,'" Lula was quoted as saying in an address to thousands of cheering farmers in the poor northeastern state of Pernambuco, his home state. "If I were [a candidate in 2006], whether they hate it or not, they are going to have to stomach me again because the Brazilian people are going to want it," said Lula, who is seeking

“There are people who say, 'it's necessary to make him bleed so he's weak when he gets to the 2006 election,'”

- Brazilian President Luiz Inacio "Lula" da Silva

to weather the worst scandal to hit his two-and-a-half year-old administration. The scandal erupted in early June when allegations surfaced that the ruling Workers' Party had paid monthly bribes to some lawmakers in exchange for their political support. Since then, several top PT officials have resigned, as has Lula's cabinet chief and top political advisor, Jose Dirceu amid charges that he masterminded the scheme, prompting Lula's opponents to say he must have known about the payments. Lula, however, has remained defiant, accusing the media and political elites of fanning the flames of the scandal. Yesterday, he said opponents were using the scandal to weaken him ahead of the 2006 election "based on fear that I can prove that in four years I did more than they did in eight years." Thus far, the scandal has not appeared to have had an effect on Brazil's economy. Reuters reported yesterday that Brazilian investment funds registered their second-biggest monthly capital inflows so far this year in July, as domestic investors were attracted by high interest rates and economic growth.

**Economic News****ECLAC Forecasts Regional Growth of 4.3 Percent in 2005**

The economies of Latin America and the Caribbean will grow 4.3 percent this year amid a continued global economic expansion, high commodity prices, and low interest rates, the United Nation's Economic Commission on Latin America and the Caribbean (ECLAC) said in a report released Wednesday. "Should forecasts from [ECLAC] prove accurate, the [region] should complete four straight years of growth and achieve a total rise in per capita GDP of about 10 percent, for 2003-2006," ECLAC said in a press release posted on its Web site ([www.eclac.cl](http://www.eclac.cl)). In 2004, the region's economy grew 5.9 per-

cent, a 25-year high. Argentina, still rebounding from a 2002 economic collapse, will record the highest growth this year, at 7.3 percent, followed by oil-rich Venezuela (7 percent), Uruguay (6.2 percent), Chile (6 percent), and Peru (5.5 percent), according to ECLAC. The region's two largest economies—Mexico and Brazil—should grow 3.6 percent and 3.0 percent this year, respectively, ECLAC said. The UN agency said that while the region's exports should continue to be strong, domestic demand driven by currency appreciation, historically low interest rates, and employment and wage growth "will probably make a significant contribution to growth this year." ECLAC's latest forecast for regional growth in 2005 is down slightly from the 4.4 percent rate it projected three months ago. In addition, it said there are still some risks to the region's growth prospects, including "a traumatic correction to some existing imbalances in the international economy and the danger of a protectionist backlash, the costs of simultaneously monitoring foreign exchange and mone-

tary targets, and the high income elasticity of imports."

## Company News

### Petroecuador Head Resigns After Requesting End to Oil Contract

The president of Ecuadorean state-owned oil company **Petroecuador** resigned Wednesday, hours after demanding an end to an oil production contract with the US' **Occidental Petroleum Corp.**, Reuters reported. "The minister of energy has asked for my resignation and I presented it a few moments ago," Carlos Pareja was quoted as saying. The minister of energy, Ivan Rodriguez, asked Pareja to step down after the Petroecuador president requested that the ministry comply with the country's Hydrocarbons Law and end the contract with Occidental—which accounts for about one-fifth of the 530,000 barrels of oil produced daily in Ecuador—to operate the Block 15 oil field in Ecuador's Amazon region. Economy Minister Rafael Correa would not say yesterday whether the government would end the contract, but noted the government would not hesitate to enforce the law. "I do not know the case, but what I am saying is that the argument that it is necessary to disobey the law so that investors are not frightened is incorrect," Correa was quoted as saying by local daily *El Comercio*. Last September, the government accused Occidental of breach of contract, saying that four years ago it improperly transferred a 40 percent stake in an Amazon crude operation to Canada's **Encana Corp.** without notifying authorities. The government denied the accusation was in retaliation for Occidental's demand for a \$75 million refund of overpaid taxes awarded by an arbitration panel in July 2004. US trade officials have said the United States could drop Ecuador from free trade talks with other Andean nations if the country did not resolve outstanding disputes with US companies.



Rafael Correa  
Photo: Ecuadorean  
economy ministry.

## Special Advisor Report

### US Official: Colombia Must Balance Peace with Justice

By Devin Finn

WASHINGTON - Colombia must find a balance between peace and justice as it implements the demobilization of thousands of paramilitary combatants, US Undersecretary of State for Political Affairs Nicholas Burns said on Wednesday.

In a speech at a half-day conference organized by the Inter-American Dialogue, Burns said he understands the delicate balance of holding combatants responsible for their human rights violations and providing for their reinsertion into civil society.

Still, he called on the government of Colombian President Alvaro Uribe to work to put the worst of the paramilitaries behind bars and enforce the recently approved Justice and Peace law, which grants reduced punishments to paramilitary leaders who demobilize their forces, confess to their crimes, and pay reparations to victims.

"We believe that this law needs to be implemented in a very aggressive way," Burns said.

However, Carl Meacham, a member of the US Senate Foreign Relations Committee responsible for Latin American issues, told the conference that some US lawmakers are concerned about what they consider shortcomings of the Justice and Peace Law.

Committee Chairman Senator Richard Lugar (R-IN) in letters sent to Uribe before the Law was signed had asked that the Colombian government take into account Congress members' concerns, Meacham said.

Critics say the Law may be doomed to failure because it lacks requirements for disarmed paramilitaries' to fully disclose sources of their wealth and describe their command structures, and includes no provision to revoke the terms of demobilization if combatants do not comply with them.

In a report issued Monday, Human Rights Watch said the demobilization process in Colombia "will almost certainly fail to dismantle these groups and result in a lasting peace," according to *The Miami Herald*.

There are no incentives for paramilitary commanders to surrender lands obtained illegally or to end their criminal activities, such as drug trafficking, meaning they could maintain their illegal forces in the future, Human Rights Watch said.

However, Burns said Wednesday the US will support Colombia's paramilitary demobilization efforts and counts the Andean country as its strongest and most important partner in the region.

The US official cited a decrease in coca cultivation and a sharp drop in murders and kidnappings as successes under US military and economic assistance.

The future of Plan Colombia—a comprehensive US aid plan for Colombia initiated in 2003 under President Bill Clinton—will be a central item on the agenda of President George W. Bush's meeting with Uribe today on Bush's ranch in Crawford, Texas, Burns said.

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

cartel over the extremely lucrative Nuevo Laredo-Laredo routes. While the violence had been escalating over the past few months, the June 8 assassination of the municipal police chief hours after having taken office brought it to a head. On June 11, the Fox administration responded by taking the unprecedented

“Both countries have much at stake as the Laredo border crossing is one of the largest commercial points of entry of foreign goods into the United States.”

- Jon French

step of rounding up and subsequently firing 200 municipal-level police officers suspected of having ties to the cartels and replacing them with a combination of federal police and the military's special forces units, as part of a border-state initiative entitled Operation Safe Mexico. The violence has nonetheless persisted, as federal law enforcement proceeds to dismantle cartel structures, crack down against the implicit code of impunity that had prevailed, while the settling of old scores continues as part of emerging cartel realignments. What is more, the cartels have resorted to the use of AK-47s, grenades, and bazookas. While a one-week closing of a consulate is highly uncommon, it may have been warranted from the standpoint of ensuring consular employee safety. Even so, in Mexico it will undoubtedly be perceived as a 'message' from Washington to prompt Mexican authorities to continue shoring up their counternarcotics efforts. Drug trafficking and related drive-by shootings are a shared, cross-border problem that Laredo Mayor Betty Flores or Washington DC Mayor Anthony Williams also contend with on a regular basis in their respective city streets. It is not an exclusively Mexican

problem. In this particular case, the solution requires constructive bilateral cooperation, as well as an integral and coordinated US-Mexico line of attack."

**A** **Guest Comment: Jon French:** "Both countries have much at stake as the Laredo border crossing is one of the largest commercial points of entry of foreign goods into the United States. Although some initial public reaction in Mexico to the closure of the US consulate in Nuevo Laredo claimed it was an exaggeration of reality, it was nevertheless a very clear message to the Mexican government that it has not done enough to stem border area violence. The US government can help with significantly more training and funding to better professionalize the Mexican police and military, specifically the Mexican FBI (Agencia Federal de Investigacion) and the Mexican Army. In the past there has been some Mexican reluctance toward greater US-Mexico collaboration, but in recent years this situation has substantially improved. The US consulate closing should impress on Mexico that even greater collaboration is an imperative objective for both countries. More effective law enforcement on the Mexican side is only part of the solution, however, as it is not Mexico's problem alone. It is likewise incumbent on the US to be much more proactive in stemming the continuing voracious demand for illicit drugs by US consumers. After all, there would not be any drug-related violence in Mexico if there was no US demand for illicit drugs from abroad."

**Andres Rozental** is President of the *Mexican Council for International Relations*.

**Armand Peschard-Sverdrup** is Director of the *Mexico Project at the Center for Strategic and International Studies*.

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