



Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q A scandal involving Colombia's Administrative Department of Security, or DAS—the rough equivalent of the FBI in the United States—has shone the spotlight on alleged ties between the government of President Alvaro Uribe and right-wing paramilitaries. Have the paramilitaries "infiltrated" the Colombian government, as some critics claim? Is the DAS a rogue agency?

A Guest Comment: Cynthia Arnson: "The most recent revelations of corruption in the DAS follow on months of scandal in which the major Colombian media, principally daily *El Tiempo* and weekly news magazine *Semana* have published a steady drumbeat of accusations about paramilitary infiltration of the DAS. As a result of the allegations, President Uribe named a new DAS director last October, and subsequently named an internal DAS commission to explore the reasons for what Uribe himself called its 'institutional crisis.' It would be encouraging for Colombians if the accusations against the DAS were isolated incidents. But ever since AUC leader Salvatore Mancuso declared his hope several years ago to control 30 percent of the Colombian Congress, paramilitary efforts to extend political, social, and economic control have accelerated alongside the process of AUC military demobilization. According to a January 2006 report of the UN high commissioner for human rights, paramilitary

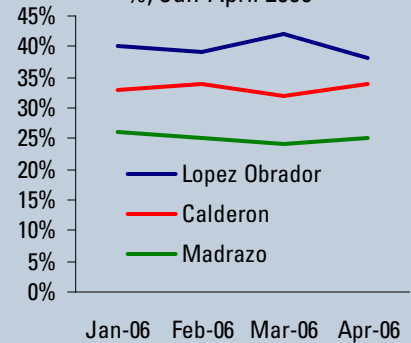
influence throughout the country is exercised 'through pressures, threats and clandestine agreements,' including control of both legal and illegal commerce. Once concentrated on Colombia's armed forces, allegations of paramilitary infiltration of Colombia's democratic institutions now extend to politicians and structures at both the national and regional level. Pro-Uribe parties in last month's legislative elections were forced to scratch a number of candidates from their lists due to allegations of ties to paramilitaries. Cleaning up the DAS should be a priority of the Uribe government, but so should investigating and halting the threats and intimidation that are

Continued on page 4

CHART OF THE DAY

Voting Intentions in Mexico's Presidential Election

%, Jan-April 2006



See related story on page 2.

Source: El Universal.

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NEWS BRIEFS

US to Provide Colombia with Three More Drug Spraying Planes

The United States will give three additional planes to Colombia this year to expand the Andean nation's aerial anti-drug spraying program, David Murray, a policy analyst at the US Office of National Drug Control Policy (ONDCP), said Monday, according to Reuters. The announcement follows a request by President Alvaro Uribe for the US to expand its anti-drug assistance. According to an ONDCP annual survey published Friday, estimated land used for coca cultivation in Colombia rose 26 percent to 356,000 hectares last year, although ONDCP attributed the growth to an increase in the total area surveyed, according to *The Miami Herald*.

Scotiabank Unit Buys 3 Billion Pesos in Car Loans from Ford

The Mexican unit of Canada's **Scotiabank** said Monday it had bought 3 billion pesos (\$US 270 million) in car loans from the local unit of auto finance company **Ford Motor Credit Co.**, Reuters reported. Ford Credit said last week it would use the proceeds from the sale of the loans to **Scotiabank Inverlat**, Mexico's sixth-largest bank, to finance ongoing operations and would continue to administer the credits on behalf of Scotiabank Inverlat.

US Textile Firm to Build Denim Plant in Nicaragua

Greensboro, NC-based **International Textile Group**, owned by US billionaire investor Wilbur Ross, on Monday announced an agreement with the Nicaraguan government to build a 28 million yard capacity denim plant in Managua. Terms of the agreement were not disclosed.

Political News**Poll Finds Lopez Obrador's Lead Over Calderon Narrowing**

Andres Manuel Lopez Obrador's lead in Mexico's presidential race has narrowed, according to a poll published Monday by local newspaper *El Universal*. With two and half months to go before the July 2 election, Lopez Obrador, of the leftist PRD party, has 38 percent voter support, down from 42 percent in March, according to the poll of 1,500 voters conducted April 5-8. Meanwhile, support for Felipe Calderon of the conservative ruling PAN party rose two percentage points to 34 percent, the poll found, putting the two leading candidates in a statistical tie because of the poll's margin of error of plus or minus 2.5 percent. Roberto Madrazo of the former longtime ruling PRI, who many analysts have written off as a contender, remained in third place with 25 percent support, up

copper in March, up 63 percent from \$1.690 billion in the same month last year, as global prices for the in-demand metal continue their climb, Chile's Central Bank reported on its Web site on Monday. Copper exports to date this year are 53 percent higher than the \$3.968 billion in the same period of 2005, Reuters noted in a related report. Copper accounts for 45 percent of Chile's exports today, up from a third of exports a few years ago, **HSBC** analyst Virgil Esguerra said in a recent research note.



The continued high **Velasco** prices for copper, *Photo: finance ministry*, however, are not bringing up Chile's currency. The peso recently dropped to a five-year low of 510.55 pesos per US dollar, down nearly 240 pesos from its peak levels in 2003. The sharp decline prompted Chilean Finance Minister Andres Velasco last Thursday to suggest people "not over-

Felipe Calderon compared himself to a racehorse from a Mexican musical who comes from behind to win a race.

one point from March. Both the Lopez Obrador and Calderon campaigns were quick to interpret the poll in their favor, with Lopez Obrador's campaign manager, Jesus Ortega, noting that his candidate still maintains the lead while Calderon appears "weak and fragile in second place," *El Universal* reported. Calderon compared himself to a racehorse from a Mexican musical who comes from behind to win a race. "Like that race I am going to tell you that although I was not the favorite, I have continued to gain, have come from behind, I have left third place [and the PAN primary] for good, I have tied [for first], and I am going to win," Calderon was quoted as saying.

Economic News**Chile's Copper Sales Up 63 Percent in March, But Peso Weakness Continues**

Chile exported \$2.755 billion worth of

look the fact that higher international price of copper 'is good news' to the country, even though it has an effect on the international exchange rate," according to a finance ministry Web site release. "What happens to the dollar greatly depends on what happens to copper, and as for the latter, we have had good news: copper price is very high and that is good to us, because it translates to more revenues, the economy becomes more dynamic, more jobs are created, and there also are more resources for finance social programs," Velasco stated. As for the dollar and its effects on Chile's exports, Velasco noted that "the government is doing its part," since a substantial part of the higher revenues associated with copper price is being saved. "If we spent all the dollars that are entering the country, we would have a lower dollar rate than the present one," Velasco said. For now, the peso could be bottoming out, and analysts like HSBC's Esguerra expect the currency to increase steadily in value to 545 pesos at this time next year.

Company News

Brazil's Telemar Plans IPO Within Next Three Months

Brazil's **Telemar Participacoes**, which runs the nation's largest fixed-line telephone company, announced Monday it would combine its units and sell stock in an initial public offering by this summer. Telemar said in a Web site presentation that its objective in the deal is to establish the "largest corporation in Latin America" to have broad share dispersion and no single controlling group. Telemar plans to list the combined company on the Novo Mercado of Brazil's **Sao Paulo Stock Exchange** and via American Depositary Receipts (ADRs) on the **New York Stock Exchange**. Telemar is currently owned by divisions of state development bank BNDES, the pension funds of several government-controlled companies, and other entities. The proposed share swap will combine Telemar with **Tele Norte Leste Participacoes** and **Telemar Norte Leste**, and the transaction values the new company at 25 percent more than the average price of the two units' preferred shares over the past 30 days, according to a filing with securities regulators, Bloomberg News reported. Telemar said the corporate stock swap is expected to be submitted to non-controlling shareholders of TNL by May 3. Registration with the exchanges should occur in June, and the public offering should be concluded on the Novo Mercado and NYSE on or before July 31. Telemar plans to establish a board of directors of at least 11 people, the majority of whom must be independent of management. The deal will require approval from telecommunications regulatory agency Anatel. **UBS** and **Rothschild Group** are the financial advisers on the transaction. On Monday, some key telecommunications stocks in Brazil rose more than 20 percent on the Telemar news, as analysts saw promise of further consolidation in the hot telecom sector. Last month, **Portugal Telecom** and Spain's **Telefonica** completed a consolidation of their joint mobile operations in Brazil, a move aimed at boosting liquidity and reducing costs.

The Dialogue Continues

A continuation of the April 14, 2006 Q&A

Q Philip H. Coombs, a former Kennedy administration and UN official who in the 1960s helped pioneer the notion that increased investment in developing country higher education and research institutions were essential for economic growth, died in February at the age of 90. How far have Latin America's higher education systems come in contributing to the region's economic growth and competitiveness since the 1960s? Are they working well with businesses and governments in advancing their economies? What changes need to come about?

A **Guest Comment: Simon Schwartzman:** "Latin America has several very good universities and university departments, public and private, and most of the current business and political leaders, administrators, and engineers have graduated from universities in the region. Enrollment in higher education is growing everywhere, and higher education graduates are filling in the available slots in government, teaching, and more qualified jobs in the private sector. In most countries, medical schools maintain public hospitals and cooperate with the health authorities; engineering schools provide technical assistance and cooperate with industries; and business and economic departments provide consultancy and work together with business. Agricultural research has played a very significant role in increasing productivity and reducing the cost of food for the population in the region. There is no doubt that Latin American universities have contributed and are contributing very significantly to economic life. A more difficult question is whether this contribution is commensurate to the resources being invested in these institutions, and whether the research that is being carried on leads to meaningful results in terms of making the economy more competitive. Here, the assessment

is less optimistic. The main driving force behind the growth of higher education in Latin America is not the demand for competent professionals, but the pressure from the middle class for educational credentials and the benefits which are supposedly associated with them. Most countries have established a tradition of open access and free tuition in the public universities which, in the absence of enough resources, lead to bloated and inefficient institutions, with high rates of student dropouts. Decision-making in these institutions is mostly based on permanent negotiations between teacher unions, student associations, and political leaders. For this reason, issues of participation, access, and distribution of benefits and privileges prevail over issues like efficiency, quality, and social and economic relevance. In spite of this dominant picture, several public and private institutions are able to provide good quality education and develop research. Most countries have established national research councils and equivalent institutions which provide direct support to qualified researchers and research departments in universities, or set up independent research centers in different fields. The work of these researchers and research institutions can be of very good quality, but they may have difficulties linking more effectively to local demand and needs for applied knowledge. The fact is that Latin America's economy is not growing enough, and, in general terms, the region is not becoming more competitive internationally. From this perspective, the contribution of higher institutions and research could be much more significant than it has been so far."

Simon Schwartzman is President of the *Institute for Studies on Labor and Society in Brazil*.

Featured Q&A*Continued from page 1*

spreading paramilitary influence throughout Colombia's legitimate institutions."

A **Guest Comment: Fernando Cepeda Ulloa:** "The charges that have been made about criminal behavior within DAS are being widely aired in the media, and the attorney general has personally taken on the most delicate cases. Several ex-officials of the entity are already in jail. If some or all of the accusations are proven, it will be clear that DAS has been infiltrated or manipulated. It will also be clear that the corresponding entities—as in any respectable democracy—assume their appropriate responsibilities and are capable of legally proving the criminal conduct. It is something very different to say that the government, in general, is infiltrated by the paramilitaries or by other criminal organizations. President Uribe himself has made substantive decisions about DAS, including a change in top personnel and naming a special commission to reform DAS that includes members of the opposition. President Uribe has been forceful in his support of every investigation. One of the most difficult problems that has confronted the Colombian government for decades has been how to stop the infiltration of organized crime, of paramilitaries, and guerrillas in key entities of public administration. It is a task that at one time or another has been shown to be incomplete. It is in light of these not always successful efforts that the current crisis of the intelligence agency, currently in the hands of Andres Penate, whose integrity nobody doubts, should be examined."

A **Guest Comment: Adam Isacson:** "Former officials have been making scary allegations about the DAS, a powerful agency in the Colombian president's office that is part FBI, part CIA, part INS, and part secret police. They claim that during the 2002-2005 tenure of Director Jorge Noguera, the DAS was essentially at the service of paramilitaries and top

narco-traffickers. Noguera is alleged to have conspired with paramilitaries to steal elections, to assassinate union leaders and activists, to remove incriminating information from drug traffickers' files, and perhaps even to destabilize the Chavez government in neighboring Venezuela. If even half of these allegations are true, they are extremely frightening and lend credence to critics' claims that paramilitaries and other underworld figures have made inroads into the government of President Alvaro Uribe. These scandals will paralyze Colombia's political process unless institutions charged with accountability do their jobs quickly and transparently. Colombia's attorney general, Mario Iguaran, must initiate a thorough investigation. If he finds evidence that crimes were committed, Colombia's justice system must try and punish those responsible, no matter how senior. Meanwhile the new DAS director, Andres Penate, needs President Uribe's full, unambiguous backing as he seeks to reform the troubled institution. Alarming, President Uribe's initial actions have shown a disturbing lack of interest in accountability. Uribe named Noguera, the disgraced former DAS director, to the post of Colombian consul in Milan, Italy. Meanwhile, instead of expressing alarm at the allegations and promising to cooperate fully with investigators, Uribe last week attacked the DAS whistle blowers and the Colombian media in an incendiary series of radio and television interviews."

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