



Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q The US Treasury Department announced last week it was freezing the US assets of nine individuals and two businesses in South America's triple border area—where Brazil, Argentina, and Paraguay meet—accusing them of providing financial and logistical support for Lebanon-based terrorist group Hezbollah. How successful have efforts been in recent years to stop terrorist-related activity in the triple border area? How well are the US and its partners in the region cooperating in the zone?

A **Guest Comment: Jose Vicente da Silva Filho:** "The Brazilian authorities don't have the same concern about terrorism as their US counterparts. The Brazilian intelligence services (Federal Police and Brazilian Intelligence Agency, or Abin) still can't see suspicious activities in Arab communities in the triple border area or elsewhere. Up until now, the Brazilian government understands that Arab people in Brazil are sending money to their families in Lebanon, not 'providing financial support' to Hezbollah. The three countries are not motivated nor involved in anti-terrorism cooperation planning, despite the pressure of US agencies. If US authorities and agents can't show solid evidence of terrorism-supporting activities and do not provide substantial resource support to the Brazilian, Argentine, and Paraguayan intelligence agencies, the Americans will remain, as

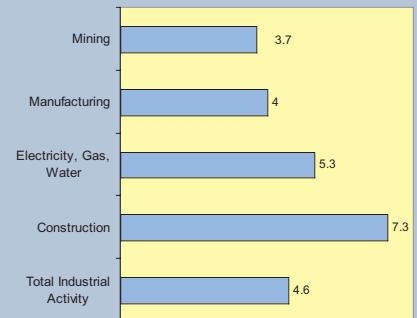
Brazilians say, *falando sozinhos* (talking to themselves)."

A **Guest Comment: Jack Devine:** "The US government has been concerned about the tri-border area of Brazil, Argentina, and Paraguay for some time. It has been viewed as a sort of 'wild west' region where arms trafficking, drug smuggling, money laundering, and other illegal activities have flourished as a result of poor coordination among law enforcement and intelligence agencies of the three different governments. More recently, there has been renewed focus on the area given the sizeable Lebanese Muslim population and reports of transnational funding for terrorist organizations like Hezbollah and

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CHART OF THE DAY

Mexico Industrial Production by Sector, October 2006 (% change YoY)



See related story on page 2.

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NEWS BRIEFS

Chilean Defense Minister Expels Pinochet's Grandson from Army

Chilean Minister of Defense Vivianne Blanlot on Thursday expelled the grandson of ex-dictator Augusto Pinochet from the army for making political comments in a speech at his grandfather's funeral on Tuesday, local daily *El Mercurio* reported. Blanlot, who attended the funeral, President Michelle Bachelet, and other government officials were reportedly shocked by the speech by the now former army captain, who has the same name as his grandfather. Pinochet hailed the bloody 1973 coup that brought to power his grandfather, who he said "had defeated Marxism, which attempted to impose its totalitarian model."

Nearly 1,300 Illegal Aliens Apprehended in US Raid

US immigration agents have apprehended 1,282 illegal aliens after raiding six facilities around the country belonging to beef and pork processing firm **Swift & Company**, ICE announced Wednesday. In a Web site statement, ICE said the raid targeted a massive identity theft scheme that has "victimized large numbers of US citizens and lawful US residents."

Minardi to Head Bridgestone in Latin America Shakeup

Tiremaker **Bridgestone Americas** said yesterday that Jorge Gonzalez, the president of Bridgestone Firestone for Latin America, will retire at the end of the year. Eduardo Minardi, currently president of the company's Mexico subsidiary, will succeed Gonzalez. Ariel Depascuali will move from Argentina to take over Mexico operations. Daniel Benvenuti, vice president and commercial director of the Argentine subsidiary, will take over as president of that company, according to the *Nashville Business Journal*.

Economic News

CAFTA-DR Heads to Costa Rican Congress for Debate, Ratification

Costa Rica's Congress will take up a proposed free trade agreement with the United States, the Dominican Republic, and four other Central American countries by mid-January, local daily *La Nacion* reported on Wednesday. The trade agreement, known as CAFTA-DR, heads to the full Congress for an eventual vote after the legislature's international affairs committee approved it late Tuesday. The committee's vote was welcomed by business groups, who urged Congress to approve to the trade pact as soon as possible. However, the agreement also faces strong resistance in Costa Rica, and protests by

The government of Costa Rican President Oscar Arias hopes to secure congressional passage of the free trade agreement before the end of April.

labor and other groups are expected to continue in the Central American nation. The government of President Oscar Arias hopes to secure congressional passage of the agreement before the end of April. Costa Rica is the only party to the seven-nation agreement not to have yet ratified it.

Mexico's Industrial Production Slows to 4.6 Percent Growth in October

Mexico's industrial production growth slowed for a fourth month in a row in October, the country's finance ministry reported Wednesday on its Web site. Industrial output rose 4.6 percent in October compared to the same month a year ago, after growing 5 percent in September and 5.6 percent in August, which were also down compared to the same period a year ago. Market analysts have been expecting a cooldown in Mexico's economic growth. "Yesterday's October IP report was largely in line with our forecast, which anticipated the ongoing weakness in industrial production," JP

Morgan Chase analyst David Franco wrote in a research note today. Franco said the IP contraction is largely due to a downturn in the manufacturing sector, which posted a "sharp" 1 percent month-over-month decline in October. On the other hand, Mexico's construction and mining sectors were up in October, likely meaning that domestic demand expansion has extended into the fourth quarter, and should help to offset a larger drag from manufacturing, Franco wrote. In related news, Mexican auto production, which comprises nearly 10 percent of the country's economy, rose in November to 193,765 units, up 9.9 percent from the same month a year earlier, Dow Jones reported Wednesday. Mexico's main auto industry association, AMIA, announced that exports last month rose 7.1 percent year-on-year to 152,396 units, and domestic sales were 1.4

percent higher at 102,200 units. The association has lowered its 2006 sales estimate slightly to 1.15 million units from 1.20 million, which still represents a 4.5 percent expansion, Dow Jones reported.

Company News

Citigroup Announces Acquisition of Central America's Grupo Cuscatlan

US financial giant **Citigroup** announced on Wednesday that it reached an agreement to acquire the subsidiaries of **Grupo Cuscatlan**, one of the biggest financial groups in Central America, from **Corporacion UBC Internacional** for \$1.51 billion in cash and stock. In a press release, Citigroup said it would acquire the banking and financial intermediaries of Grupo Cuscatlan, which has operations in El Salvador, Guatemala, Costa Rica, Honduras, and Panama. The deal also includes the acquisition of Grupo Cuscatlan's pension and insurance operations in El Salvador, Citigroup said.

Operating under the Banco Cuscatlan trademark, Grupo Cuscatlan subsidiaries offer corporate and commercial banking products and services, as well as a growing suite of consumer banking products, according to Citigroup. Grupo Cuscatlan has \$5.4 billion in assets, \$3.5 billion in loans, and \$3.4 billion in deposits as of September 30, and serves more than 45,000 corporate clients and 1.2 million consumer clients through a distribution network of 202 branches and 263 ATMs throughout the region. It has approximately 5,000 employees. Citigroup said the acquisition of Grupo Cuscatlan complements its purchase, announced in October, of **Grupo Financiero Uno**, Central America's largest credit card issuer with 1.1 million credit card accounts and \$1.2 billion in credit card receivables. "Taken together, these transactions quickly and significantly strengthen our distribution capabilities and product offerings to serve retail and corporate clients in Central America," said Citigroup Chairman and CEO Charles Prince. Citigroup expects both acquisitions are expected to close early next year.

Correa Says He Won't Comply with ICSID Ruling on Occidental Claim

Ecuadorean President-elect Rafael Correa on Wednesday said he does not recognize the jurisdiction of the World Bank's International Center for Settlement of Investment Disputes (ICSID), through which US oil company **Occidental Petroleum** is seeking \$1 billion in damages from Ecuador and the return of its assets after the Andean nation canceled its contract with the company earlier this year, Reuters reported. "We don't recognize the power of this center to solve a disagreement that is exclusively in the domain of Ecuadorean tribunals," Correa was quoted as saying in a statement. In May, the government canceled its contract with the Los Angeles, CA-based Occidental, accusing the company of illegally transferring an oil block to Canada's **Encana** a few years before. Soon after, Occidental filed a claim with the ICSID seeking \$1 billion in damages from the government, as well as the return of its assets in the country. Correa, a leftist for-

The Dialogue Continues

A continuation of the December 11, 2006 Q&A

Q US lawmakers say they plan to investigate allegations of slave labor that may be used to produce steel purchased from Brazil by US companies. What is the significance of the allegations for US-Brazil relations and US-Brazil trade? Is Brazil's government doing enough to tackle the problem of forced labor? What about Latin American governments in general?

A Guest Comment: Angela Maria de Castro Gomes: "The Brazilian state ... has made a determined effort to combat forced labor in the country. The oversight of the labor ministry, through Mobile Groups, which receive help from the federal police and the public labor ministry, are the principal agents. There is no doubt that the effort in the fight is great, but there are also clear difficulties found in eradication: misery and workers' total lack of qualifications makes luring them possible due to a complete lack of other options for survival. So enforcement alone, while necessary, is not enough, without being linked to long-

term social and economic policies. Therefore, all collaboration, be it private or public, whether it come from national or international entities, is welcome in this fight. Investigating the existence of forced labor is not necessary (not by anyone in the US nor from any part of the world): it exists and is recognized. But, unfortunately, it is not exclusive to Brazil or to the so-called third world. It also exists in Europe and the US. A broad alliance, an international effort, is needed, as it is an unacceptable and inprescriptible crime against human rights. That, in my view, is the spirit that ought to preside in this great, difficult, and long fight."

Angela Maria de Castro Gomes is a Senior Researcher at the Getulio Vargas Foundation's Center for Research and Documentation for Contemporary Brazilian History in Rio de Janeiro.

mer economy minister who was elected in a presidential run-off on November 26 and will take office on January 15, has said Occidental's claim is a "closed case." He opposes naming an arbitrator to join the ICSID panel appearing in Washington. However, the ICSID is expected to go ahead with an arbitration panel to solve the dispute regardless of Correa's opposition to any ruling, according to Reuters. Occidental's former oil fields in Ecuador produce about 100,000 barrels per day of oil, or a little less than a fifth of the Andean nation's total output.

Submarino Shareholders Approve Merger with Americanas.com

Shareholders in **Submarino**, Brazil's

biggest Internet retailer, on Wednesday approved a plan to merge with its main rival, **Americanas.com**, the online business of local department store chain **Lojas Americanas**. In a press release, Submarino said its shareholders okayed the creation of a new company called **B2W**, in which Lojas Americanas will hold a 53.25 percent voting stake, while Submarino shareholders will own the remaining 46.75 percent. Through the merger, Submarino and Lojas Americanas expect to save a combined 800 million reais (\$US 372.1 million) a year and be in a better position to exploit Brazil's retail market, according to Reuters. The retailers plan to list B2W on the **Sao Paulo Stock Exchange's** Novo Mercado, a classification which requires stricter corporate governance standards.

Featured Q&A*Continued from page 1*

Hamas. We know there are individuals providing financial and logistical support to these organizations, though there has been no corroborated information of operational cells in the tri-border area. It is important for the US government, preferably in coordination with the gov-

“The economy of the area is dominated by smuggling, money laundering for cocaine, gun running, and counterfeited dollars.”

— *Gabriel Marcella*

ernments of Brazil, Argentina, and Paraguay, to take action against individuals and/or entities when there is enough evidence to trace their support to terrorist organizations. In this most recent case, it is unfortunate that the governments of Brazil, Argentina, and Paraguay rejected the US Treasury Department's sanctions against those determined to be Hezbollah fundraisers. While these countries have been supportive of counterterrorism measures on the whole, their coordination in specific cases like this is essential. At this point, it is in the US government's interest to make the case against these individuals and business entities, and then to work with Brazil, Argentina, and Paraguay in a coordinated manner."

A **Guest Comment: Gabriel Marcella:** "The nine individuals whose assets were frozen are active supporters of Hezbollah, which is on the State Department list of terrorist organizations. Hezbollah operatives were implicated for the bombings in Buenos Aires of the Israeli embassy in 1992 and the Jewish Community Center in 1994. Freezing of their assets is

intended to shut off the flow of money to terrorists. Although some of the nine had been suspected for years, it is the first time that concerted international action has been taken against them. It indicates a heightened level of cooperation in information sharing and law enforcement between Brazil, Argentina, Paraguay, and the United States. This 3+1 Group has been developing greater levels of cooperation to deal with international terrorism and crime since the 1990s, and especially after 9/11. For example, the US Department of Homeland Security has provided money to train law enforcement people from Argentina, Brazil, and Paraguay to form trade transparency units to investigate and prosecute crimes related to trade-based money laundering. The economy of the area is dominated by smuggling, money laundering for cocaine, gun running, and counterfeited dollars. The US estimates that over \$6 billion a year (nearly 50 percent of Paraguay's official GDP) in illegal funds are laundered in Ciudad del Este, home to some 20,000 Muslims. Although freezing assets is a firm step forward, more needs to be done. Corruption, inadequate policing, and ungoverned space work against the rule of law and border control."

Jose Vicente da Silva Filho is a public security consultant and a former Brazilian National Secretary for Public Security.

Jack Devine is President and Founding Partner of the Arkin Group LLC, and a former Acting Director and Associate Director of the US Central Intelligence Agency's Directorate of Operations.

Gabriel Marcella is Director of Third World Studies at the US Army War College.

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