

INTER-AMERICAN DIALOGUE'S

LATIN AMERICA ADVISOR

BOARD OF ADVISORS

- | | |
|--|---|
| Diego Arria
Director,
Columbus Group | Jon Huenemann
Principal,
International
Department,
Miller & Chevalier |
| Genaro Arriagada
Board Member, Banco
del Estado de Chile | James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC |
| Joyce Chang
Global Head of
Emerging Markets
Research, JPMorgan
Chase & Co. | John Maisto
Director,
US Education Finance
Group |
| W. Bowman Cutter
Former Partner,
E.M. Warburg
Pincus | Nicolás Mariscal
Chairman,
Grupo Marhnos |
| Alejandro Delgado
Economist for Latin
America, Africa, the
Middle East & Mexico,
General Motors | Thomas F. McLarty III
President,
McLarty Associates |
| Dirk Donath
Managing Director,
Eton Park Capital
Management | Carlos Paz-Soldan
Partner,
DTB Associates, LLP |
| Jane Eddy
Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's | Beatrice Rangel
Director,
AMLA Consulting LLC |
| Marlene Fernández
Corporate Vice
President for
Government Relations,
Arcos Dorados | José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc. |
| Jason Hafemeister
Vice President,
Allen F. Johnson &
Associates | Andrés Rozental
President,
Rozental & Asociados
and Senior Fellow,
Brookings Institution |
| Peter Hakim
President Emeritus,
Inter-American
Dialogue | Everett Santos
President,
DALEC LLC |
| Donna Hrinak
Senior Director of Latin
America Government
Affairs, PepsiCo | Shelly Shetty
Senior Director, Latin
American Sovereign
Ratings, Fitch Inc. |

FEATURED Q&A

What Is Driving Coca Cultivation Trends in the Andes?

Q The United Nations Office on Drugs and Crime said last month that coca cultivation decreased 5 percent in Colombia, Peru and Bolivia in 2009. In Colombia, cultivation fell 16 percent while it increased 6.8 percent in Peru and remained relatively steady in Bolivia. What is responsible for the trends in Colombia and Peru? What does the report say about the effectiveness of efforts to fight the supply of and demand for illicit drugs? What are the implications for anti-drug policies in the Andes moving forward?

A Vanda Felbab-Brown, foreign policy fellow at The Brookings Institution: "The downward trends in coca cultivation in Colombia are not surprising for several reasons. First, there has been a considerable decrease in demand in the United States, most likely as a result of many long-term hardcore cocaine users becoming old. Second, many new and current users in the United States prefer prescription narcotics and methamphetamine to cocaine, though how robust and lasting this preference shift will prove remains to be seen. At the same time, demand for cocaine has vastly expanded in Europe and in many Latin American countries, such as Brazil and Argentina, many of whom are currently supplied more out of Peru and Bolivia than Colombia. Third, given the extraordinary intensity of eradication in Colombia, with the most intense and longest sustained aer-

ial spraying in history, it should be expected that some level of suppression will take place. The key question is how robust the gains in Colombia will prove to be. Since most cocalers do not receive any assistance for switching to legal livelihoods and most are dependent on coca for basic livelihood and food security, the pressure for cultivation to rebound will be strong. It is thus both imperative and an opportune time to intensify and expand rural-livelihood efforts in Colombia. A crucial start is for the new Colombian government to

Continued on page 2



Ecuadorean President: Santos Still Could Be Arrested

Colombian President-elect Juan Manuel Santos (above) still could be arrested under an outstanding Ecuadorean arrest warrant issued in 2008, Ecuadorean President Rafael Correa said Monday. See brief on page 2.

File Photo: Santos campaign.

Inside This Issue

FEATURED Q&A: What Is Driving Coca Cultivation Trends in the Andes?1	Latin America Exporting More Oil to India as U.S. Demand Lags3
PRI, PAN Both Claim Victories in Mexico's Sunday Elections.....2	Chile's Economic Growth in May Surpasses Market Expectations.....3
Correa: Colombia's Santos Still Faces Arrest in Ecuador.....2	Countdown to Brazil's Election: State-Level Political Alliances Key to October Elections.3

NEWS BRIEFS

Correa: Colombia's Santos Still Faces Arrest in Ecuador

Colombian President-elect Juan Manuel Santos still faces arrest in Ecuador if he visits the neighboring Andean country, Ecuadorean President Rafael Correa said Monday, Reuters reported. Authorities in Ecuador issued an arrest warrant in 2008 against Santos, who was then defense minister, over the Colombian military's March 2008 bombing raid inside Ecuador, which killed more than 20 people including rebel Raúl Reyes, the second-in-command of the Revolutionary Armed Forces of Colombia.

Seventy Percent of Creditors Have Accepted Argentine Bond Swap

Seventy percent of holders of defaulted Argentine bonds have accepted the government's restructuring deal, Agence France-Presse reported. The government said the acceptance rate ends the country's dispute with its creditors, which dates from Argentina's massive default in 2001. Including a similar offer in 2005, more than 92 percent of bondholders have now accepted the government's restructuring.

Mitsubishi Electric Gets Order for São Paulo Rail Car Equipment

Japan's Mitsubishi Electric Corp. said Monday that it has received an order worth \$46 million for electric equipment to be used in rail cars operated by Brazil's **Companhia Paulista de Trens Metropolitanos**, which runs São Paulo's metro system. The order, which is part of the city's effort to enhance public infrastructure ahead of the 2014 World Cup, was received from **Construcciones y Auxiliar de Ferrocarriles**, a Spanish rail car manufacturer.

Political News

PRI, PAN Both Claim Victories in Mexico's Sunday Elections

Mexico's main political parties on Monday jockeyed to claim victory a day after the country's local elections. The ruling National Action Party (PAN) celebrated gubernatorial wins in Oaxaca and Puebla, considered strongholds of the opposition Institutional Revolutionary Party (PRI). Cesar Nava, the PAN's leader, said Monday his party won a "clear victory, final and irreversible," in the gubernatorial races in key states of Puebla and Oaxaca, local daily *El Universal* reported. The PRI, meanwhile, said Monday it triumphed in 11 of the 12 governorships that were at stake. Unofficial results suggest the PRI won races in at least nine states, unseating incumbents in three of them: Aguascalientes, Tlaxcala and Zacatecas. The race for governor of Sinaloa, Veracruz and Hidalgo were especially close and winners may not be announced officially until Wednesday, according to reports. Analysts suggest that

local alliances between the conservative governing PAN and the left-leaning PRD helped thwart a stronger PRI performance last weekend. But with presidential elections scheduled in 2012, that alliance is unlikely to hold up nationally. "The alliance was a successful bet, the results prove that," José González, the PAN's deputy leader, told Reuters. "But for the presidency, frankly, it would be impossible." President Felipe Calderón, who has made a hard-line campaign against ruthless drug gangs the hallmark of his administration, is hoping his party can convince voters to give it a third six-year term in the presidency. But violence continued to rage on Sunday, with 20 killings, according to Agence France-Presse. The PAN said its party headquarters in two states, Veracruz and Hidalgo, were raided and that 12 party officials were detained, which it blamed on the PRI.



Calderón

File Photo: Mexican Government.

Featured Q&A

Continued from page 1

abandon the 'zero-coca' policy inherited from the Uribe administration, which conditions any aid on a community first eradicating all of its coca. Such a policy is not only ineffective, but deeply counterproductive."

A Adam Isacson, senior associate in the Security Policy Program at the Washington Office on Latin America: "In 2009, for the first time in more than a decade, U.S.-supported forced eradication of coca—both aerial and manual—declined in Colombia. The decline was accompanied by an economic crisis in rural areas, worsened by the collapse of pyramid schemes in coca-growing zones. One would have expected Colombian coca growers to replant rapidly. But that didn't happen. Instead, the United Nations found a significant drop in coca-

growing, bringing Colombia to levels not seen since the mid-1990s. While this is hard to explain, much credit goes to recently implemented policies that seek

“Forced eradication without attention to governance ... just doesn't work.”

— Adam Isacson

to increase the physical presence of government representatives in the historically ungoverned areas where coca is cultivated. While these policies have a very long way to go, they are achieving far

Continued on page 4

Economic News

Latin America Exporting More Oil to India as U.S. Demand Lags

India's **Reliance Industries Ltd.** has more than doubled Latin American crude oil imports this year, Bloomberg News reported Monday, citing a new report from Vienna-based **JBC Energy**. Lower demand for oil in the United States has compelled Latin American suppliers to look for markets in India, according to

Lower demand for oil in the United States has compelled Latin American suppliers to look for markets in India, according to JBC Energy.

JBC Energy. Reliance, which runs one of the biggest refineries on the Asian sub-continent, bought 380,000 barrels a day of crude from Venezuela, Mexico and Brazil and other smaller suppliers from January to April, compared to 155,000 barrels a day during all of 2009, according to the report.

Chile's Economic Growth in May Surpasses Market Expectations

Chile's central bank on Monday said its monthly economic activity index, or Imacec, surged 7.1 percent in May compared to the same month a year ago, Dow Jones Newswires reported. The figure was sharply higher than the 5.6 percent increase analysts expected. The seasonally adjusted Imacec grew 1.4 percent from the previous month, while the cyclically adjusted index grew 5.6 percent on the year, according to the report. The South American nation's retail, wholesale, transportation and communications sectors led the growth, suggesting Chile has not been significantly set back by its massive earthquake earlier this year, analysts said. The central bank expects GDP to grow between 4 and 5 percent overall in 2010.

Countdown to Brazil's Election

A Biweekly Series of Views and Analysis from David Fleischer

State-Level Political Alliances Key to October Elections



BRASÍLIA—Brazil holds general elections every four years coincident with the World Soccer Cup playoffs (currently in the final stage of matches in South Africa). This will be the first presidential election since 1989 where Luiz Inácio Lula da Silva (PT) will not be a candidate. Defeated by Fernando Collor de Mello (PRN) in 1989 and by Fernando Henrique Cardoso (PSDB) in 1994 and 1998, Lula came back to defeat José Serra (PSDB) in 2002 and was re-elected in 2006. Lacking a constitutional change to permit a third term, Lula cannot run this year—although he commands a very large 75 percent approval rating in the polls.

In 2010, Brazil will also elect 27 governors and state legislatures, all 513 federal deputies and two-thirds of the 81-member Senate. Thus, articulation of state-level party coalitions to serve as "platforms" for the presidential candidates is deemed very important.

In 2009, Lula chose his *in pectore* presidential candidate—his chief of staff, Dilma Rousseff, who had been mines and energy minister in Lula's first term. However, she has never run for public office and a March 2009 poll produced meager results—José Serra (41 percent), Ciro Gomes (16 percent) and Rousseff (11 percent). However, Lula began an intense campaign to "transfer" his voter preferences to Dilma so that in a March 2010 poll she advanced to 27 percent versus 36 percent for Serra and 11 percent for Gomes (PSB).

In April, Gomes dropped out of the race and in the May poll Serra and Dilma were tied at 37 percent—Lula's vote transfer efforts were successful. However, in two polls (Ibope and Vox Populi) conducted in June, Dilma surpassed Serra with a five-point lead (40 percent vs. 35 percent). The PV candidate, Marina Silva, was a distant third with 8 percent.

Thus, many thought that the Serra PSDB-Democrats coalition should be "concerned"—but apparently not. On June 25, it was revealed that the PSDB had chosen PSDB Senator Alvaro Dias (Paraná) to be Serra's running mate without prior consultation with the Democrats. This left the PSDB's 2010 coalition partner very angry and provoked threats by Democrats leaders to abandon the coalition. Initially, the Democrats had accepted a "straight" PSDB ticket, only if the vice presidential candidate were former Minas Gerais governor Aécio Neves, who refused the "honor." Thus, the Democrats demanded the vice presidential slot.

After heated negotiations in São Paulo on June 29-30, finally the PSDB retreated and DEM "freshman" Rio Deputy Índio da Costa was selected to be Serra's running mate, and ratified by the Democrats national convention late on June 30 (the last day for party conventions). However, on July 2, a new Datafolha poll, conducted just after the PSDB-Democrats imbroglio had been resolved, showed Serra with 39 percent and Dilma with 38 percent (again a technical tie).

The PT-PMDB coalition was sealed in early May with the national PMDB president Deputy Michel Temer as Dilma's running mate and many state-level coalitions were articulated. Because the PSDB-Democrats coalition was nearly dissolved at the last minute, it is doubtful whether these two parties will be able to assemble a sizable number of viable state-level alliances.

David Fleischer is emeritus professor at the University of Brasília and editor of Brazil Focus.

Featured Q&A*Continued from page 2*

greater results than the ineffective and cruel aerial herbicide fumigation program that was a hallmark of Plan Colombia. In Peru, manual eradication continues to be the principal antidrug strategy, while state presence in key coca growing areas—particularly the violent Ene and Apurímac valleys—is actually decreasing, not increasing. In Peru today, as in Colombia several years ago, eradication without state presence, and without alternatives for growers, isn't working. The new numbers carry two hard lessons. First, cocaine supplies are going to continue adjusting to meet demand. Second, forced eradication without attention to governance—though it may have seemed like an attractive shortcut to policymakers a decade ago—just doesn't work. There is no shortcut. Development and governance must come first."

A **Francisco Thoumi, director of the Center for Study and Observation of Drugs and Crime at Universidad del Rosario in Bogotá:** "On June 20, the

United Nations Office on Drugs and Crime (UNODC) released the 2010 World Drug Report showing a significant reduction on the area cultivated with coca in Colombia from 81,000 hectares in 2008 to 68,000 hectares in 2009. The other two main producers, Peru and Bolivia, increased coca plantings from 56,100 to 59,900 hectares and from 30,500 to 30,900 hectares, respectively. The result was a decline in the global area cultivated to 158,800 hectares, a figure comparable to the levels of 2003-2006 but 12.5 percent and 5.3 percent lower than in 2007 and 2008. These figures are presented as proof of the successful Colombian eradication and other anti-drug policies. The report provides an estimate of 410 tons of potential cocaine production in Colombia which is 9 percent lower than the 450 tons estimated for 2008. However, because of problems

with the conversion factors from coca to cocaine in Peru and Bolivia, there are no potential cocaine production estimates for those countries. However, one can infer that there was a decline from the 865 tons of cocaine potential production estimated for 2008. UNODC has improved its drug database, but the figures presented in the report are contradictory. The report asserts that in 2009 Colombia eradicated 165,329 of the

“The figures presented in the report are contradictory.”

— *Francisco Thoumi*

81,000 hectares of coca it had the preceding year. A question then is where did the coca used to produce cocaine in Colombia come from? The report does not provide seizure estimates for 2009 but asserts that in 2008, 700 of the 865 tons of potential cocaine production were seized. Total cocaine consumption in the United States is estimated at 300-350 tons and in Europe it is about 180 tons. It is possible that, as UNODC claims, the Colombian cocaine plantings declined in 2009, but the contradictions in data presented in the World Drug Report cast substantial doubts about the validity of the assertions made in it."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2010

Erik Brand

General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta

Editor
gkuleta@thedialogue.org

Inter-American Dialogue:

Michael Shifter, President

Peter Hakim, President Emeritus

Katherine Anderson, V.P., Finance & Administration

Genaro Arriagada, Senior Fellow

Joan Caivano, Director, Special Projects

Paul Isbell, Visiting Senior Fellow

Claudio Loser, Senior Fellow

Nora Lustig, Senior Fellow

Manuel Orozco, Director, Remittances and Development Program

Tamara Ortega Goodspeed, Senior Associate, Education

Marifeli Pérez-Stable, Senior Fellow

Jeffrey Puryear, Vice President, Social Policy

Viron Vaky, Senior Fellow

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at: 1211 Connecticut Avenue, Suite 510 Washington, DC 20036 Phone: 202-822-9002 Fax: 202-822-9553 www.thedialogue.org

Subscription Inquiries are welcomed at fretrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.