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Featured Q&A With Our Board of Advisors

Q The Honduran government on Sunday declared a national terror alert amid intelligence reports that al-Qaeda was trying to recruit Hondurans to attack foreign embassies, and more broadly amid reports that al-Qaeda is using Latin America as a staging ground to plan attacks on the US and its allies. How significant is the al-Qaeda threat in Latin America? How far have the region's governments come in countering the threat since September 11, 2001? What more needs to be done?

A Guest Comment: Kim Petersen: "Al-Qaeda has a complex strategy that relies not only on bringing their fight to America's doorstep, but also on punishing US allies and destabilizing nearby regimes. And with cells operating semi-autonomously around the globe, al-Qaeda boasts assets that can operate without significant support in prosecuting their goals. Besides the recent revelations by the Honduran government, there has been ample evidence that al-Qaeda, Hamas, and Hizballah cells are operating through much of Latin America, most notoriously the tri-border region around the Paraguayan city of Ciudad del Este. But what is the risk posed by such groups in the Caribbean Basin and Latin America? By way of example, imagine what such a terrorist cell could accomplish through even a simple terror attack. A lone gunman could foment fear and panic that, when com-

bined with appropriate terrorist rhetoric, might see disproportionate reactive consequences. A tourism-dependent country might realize a massive defection of cruise line visits were the perception (if not the reality) to be that travel there constituted an unacceptable risk. Such a loss of tourism revenue (as much as 70 percent of GNP in some countries) could cause massive unemployment, political unrest, and perhaps the destabilization of the government. Would that be in keeping with al-Qaeda's stated goals? Naturally. And all accomplished with a small investment in human and financial capital. The biggest challenge to defending against a growing terrorist

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PHOTO OF THE DAY



A commission has concluded that Brazilian Central Bank President Henrique Meirelles, who faces accusations of tax evasion, did nothing unethical. See related story on page 2.

Photo: Brazilian Central Bank.

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NEWS BRIEFS

Chavez Ready to Meet with Bush

Venezuelan President Hugo Chavez is ready to meet with US President George W. Bush during a visit to the US next month in an effort to improve relations, Foreign Minister Jesus Perez said Wednesday. Perez said such a meeting had a greater chance of taking place after the US recognized Chavez's victory in Venezuela's August 15 referendum on his rule. Chavez, who has accused the US of backing efforts to topple him, will be in the US to attend the annual opening of the United Nations General Assembly.

Source: Reuters.

Colombian Manufacturing Output Grew 11.72 Percent YoY in June

Colombian manufacturing output, excluding coffee production, grew 11.72 percent in June compared to June 2003. For the first six months of the year, output increased 5.08 percent year-on-year, led by automobile production, which grew 30.37 percent amid an increase in vehicle exports to neighboring Venezuela. Manufacturing employment grew 1.39 percent year-on-year in June and 0.17 percent for the first half.

Source: DANE, Reuters.

Government Mortgage Loans on Track to Surpass 2004 Target

Mexican government housing agency Infonavit said Wednesday that year-to-date it has granted 176,875 mortgage loans worth a total of 34.784 billion pesos (\$US 3.06 billion). With another 19,537 loans ready to be disbursed, Infonavit said it was on track to exceed its 2004 target of 305,000 credits by 64 percent. President Vicente Fox has made increasing housing for Mexicans a key focus of his government.

Source: Infonavit.

Economic News**S&P Raises Venezuela Ratings on Outlook for Greater Stability**

Standard & Poor's on Wednesday raised its rating on Venezuela, citing an expected increase in political stability following the August 15 referendum and improved external indicators. S&P raised Venezuela's long-term foreign and local currency sovereign credit rating to "B" from "B-," according to an S&P statement. S&P credit analyst Richard Francis said secure international reserves, a large current account surplus, and lower external debt contributed to the upgrade. However, Francis said social unrest, political turmoil, and other factors have the power to lower Venezuela's creditworthiness. "Political polarization, weak institutions with limited checks and balances, a large fiscal deficit despite high oil prices, and structural eco-

nomies, pace of investment, and strengthening of the government's credit quality. The ratings firm also raised Venezuela's short-term foreign and local currency sovereign credit ratings from "C" to "B." S&P said the general outlook is "stable."

Political News**Brazilian Commission Finds no Unethical Behavior by Meirelles**

A commission responsible for monitoring the behavior of Brazilian government officials has concluded that Brazilian Central Bank President Henrique Meirelles, who faces accusations of tax evasion, did nothing unethical, Reuters reported Wednesday. "The commission, which examines issues from the ethical point of view ... considered [Meirelles'] explanations satisfactory," the commission was quoted as saying. It noted that it was

S&P credit analyst Richard Francis said secure international reserves, a large current account surplus, and lower external debt contributed to the Venezuela ratings upgrade.

not the commission's responsibility to examine legal or tax issues, but said there were no signs of a conflict of interest between Meirelles personal interests and his duties as Central Bank president. Meirelles appeared before the commission to explain himself following media reports that he had not filed a tax return in 2002 because he claimed he was not a resident of Brazil for tax purposes, while at the same time claiming residency in order to run for public office. He was appointed Central Bank president by President Luiz Inacio "Lula" da Silva shortly after Lula took office in January 2003. Two of the commission's six members were reportedly not satisfied with Meirelles' explanations. Earlier this month, Lula gave Meirelles cabinet minister status to protect him from prosecution. In other Brazil news, congressional leaders postponed until mid-September a vote on bankruptcy reform, Reuters reported. Pro-government lawmakers said the postponement

economic deficiencies resulting from the continued high and growing dependence on oil continue to constrain ratings on the government of Venezuela," Francis said. Venezuela is the world's fifth-largest oil exporter and has been benefiting from record-high oil prices. Some analysts say the windfall revenues from oil exports played an important role in Chavez's victory over the opposition in the referendum, as he was able to boost his popularity by lavishing money on social programs. However, analysts speculate that a return to recent record highs above a landmark \$50 per barrel for global oil prices is unlikely, amid market indications that declining oil prices in the past several days will continue. Standard & Poor's on Wednesday also raised its corporate credit rating on state-owned oil company **Petroleos de Venezuela** (PDVSA) from "B-" to "B." S&P said a stronger view of PDVSA's credit quality depends on an improvement in the company's opera-

was due to opposition plans to block Lula's legislative agenda and criticized Lula for failing to reach out to the opposition. The bankruptcy reform would lower the cost of doing business in Brazil.

Argentine Police Arrest a Leader of *Piquetero* Movement

Argentine police on Wednesday arrested a radical leader of the country's jobless *piquetero* activists, Reuters reported. Security officials in Santa Fe province said Raul Castells, who was wanted for invading a casino with other *piqueteros* and demanding money to leave, surrendered without resistance. Castells is the leader of the Independent Movement of Pensioners and Unemployed Workers, which together with five other *piquetero* groups claim to represent the 15 percent of Argentina's population that is unemployed and 50 percent that lives in poverty. The *piquetero* movement rose out of Argentina's economic collapse in 2002, and has been marked by almost daily protests and street blockades in the nation's capital, Buenos Aires. They also routinely invade **McDonald's** restaurants, the office buildings of other multinational companies, and government ministries. President Nestor Kirchner has been under pressure to crack down on the *piqueteros*, but, wary of provoking violence, has largely tolerated the disruptions and has ordered police not to arrest or use physical force against them [Editor's note: see a related Q&A in the August 6, 2004 issue of the *Latin America Advisor*]. Castells' arrest had been ordered by a judge. Castells' wife, Nina Peloso, Castells' wife and a *piquetero* leader, warned of massive protests after her husband's arrest. "This helplessness, this anger is going to become hate and we will win the streets to demand his freedom," Peloso was quoted as saying.

Company News

Toyota to Make More Trucks in Argentina to Meet Demand

Toyota Motor Corp. plans to triple production of its Hilux pickup truck in

Capitol Hill Watch

A weekly look at US congressional activity on Latin America

Congressional Delegation Travels to Four Andean Countries

A bipartisan congressional delegation returned Sunday from a week-long, four-country tour of the Andean region, including a stop in Venezuela to monitor the country's closely watched referendum on the presidency of Hugo Chavez. The "CoDel," led by Rep. Jerry Weller (R-IL), met with Peruvian President Alejandro Toledo in Lima and with Ecuadorean President Lucio Gutierrez in Quito to discuss counternarcotics efforts and a proposed US free trade agreement with Colombia, Ecuador, and Peru. The CoDel also traveled to Bolivia, where it focused on counternarcotics and bilateral trade issues. The delegation, which included Reps. Howard Coble (R-NC) and Gresham Barrett (R-SC), did not go to Colombia. Weller said he was asked to lead the delegation to Venezuela by President George W. Bush's national security advisor, Condoleezza Rice.

Source: Office of Rep. Jerry Weller.

GAO to Study Effect of Mexican Power Plants on Pollution in US

The General Accountability Office (GAO), the investigative arm of Congress, will study the effect of power plants in Mexico on pollution in the United States amid concerns emissions from the plants pose health risks. The two California Democrats who requested the study, Reps. Bob Filner and Hilda Solis, also want the GAO to probe the role US, Mexican, and international companies play in generating the pollution, and whether the companies comply with US and Mexican standards. Filner and Solis say two Mexican power plants near the border with the US do not meet US air quality standards, and that other pollution-generating plants are being built. The GAO said it will begin the study in about three months.

Source: Associated Press.

Argentina to meet a surge in demand from soybean farmers, Bloomberg News reported Wednesday. The Japanese automaker will increase capacity at its Zarate plant to produce 60,000 Hilux trucks a year, up from 20,000. The planned production increase comes as Argentine soybean farmers are buying more trucks amid a boom in exports. Soybean sales, which account for about 25 percent of the country's exports, have been driven by strong demand from China, which doubled its purchases of Argentine soybeans to 6 million tons in 2003. In addition to a surge in sales, soybean farmers have experienced lower production costs due to Argentina's

devalued currency in 2002. The Hilux is the only truck model Toyota makes in Argentina, where the world's largest car manufacturer produced a record 10,400 trucks in the first half of 2004. Predictions are for even higher demand. The Argentine expansion is part of an effort by Toyota to create a global production and supply network, and increase the total number of vehicles it produces in Thailand, Indonesia, South Africa and Argentina by almost a third next year to 510,000. Toyota exports its Argentine-made trucks to Brazil, Paraguay, Uruguay, Mexico, Ecuador, Guatemala, and El Salvador.

Featured Q&A*Continued from page 1*

threat is convincing the major economic powers, the US in particular, to assist its neighbors with financing desperately needed security for the protection of critical infrastructure. The threat exists and the clock is ticking."

A Guest Comment: Eric Farnsworth: "Al-Qaeda is expert at finding and exploiting permissive security environments worldwide, and Latin America and the Caribbean are no exception. Reports surface periodically indicating al-Qaeda probing in the region, so it comes as no surprise that governments, including Honduras', are taking the threats seriously. They have no interest in reliving the Argentine experience of the early 90s or in allowing their own territories to be utilized against US or other targets. By all accounts, the region has cooperated quite significantly with US and international authorities on terror-related matters, from intelligence sharing to law enforcement actions. More can always be done, of course, depending as always on resource availability and political will. The key will be for regional governments to continue working to make their nations inhospitable to global reach terrorists. At the same time, leaders must recognize that the way to ensure that such activities do not grow roots in the region is to strengthen the democratic institutions, open market economies, and hope for the future that are anathema to terrorist activities."

A Guest Comment: Jon French: "Regarding Mexico, the primary concern is the possibility international terrorists could utilize the well-established conduits utilized by millions of Mexicans in the past to illegally cross the border into the United States. Despite extensive collaboration between US and Mexican immigration authorities, this reality is unlikely to change soon. However, the Mexican government has implemented numerous travel controls for all commercial flights into Mexico, as well as for domestic

flights landing at Mexican border city airports—initially established pre-9/11 in part to stem the flow of illicit drugs to the US. There does remain the porous Mexican-Guatemalan border utilized by Central Americans in their trek to *el norte*. The Mexican immigration authorities are beginning to attempt to control this flow, particularly with the recent emergence of violent-prone Central American gangs, such as Mara Salvatrucha, which prey on these Central American migrants traversing Mexico. There is recognition of a problem along the Mexican-Guatemalan border, but prospects for controlling this area, particularly to identify and detain international terrorists, remains a 'work in progress.' Both the US and Mexican governments should focus on a strategic perspective, a NAFTA perimeter security concept, but significant additional resources would be required. The additional resources would have to come from the US government, since the threat of an international terrorist attack within Mexico is remote. In contrast to Asia and Europe, Mexico has very few Islamic centers which could serve as a support base—those few are closely monitored by the authorities. And the vocal Mexican left is not radicalized and violent-prone—the few occasional incidents over the years involving the planting of bombs have all been undertaken for a one-day newspaper headline and in a manner to minimize potential civilian casualties."

Kim Petersen is CEO of SeaSecure LLC.

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