

latin american weekly report

30 January 2014, WR-14-04

ISSN 0143-5280

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This edition of *Latin American Weekly Report* has been produced for Canning House Corporate Members by LatinNews (www.latinnews.com).

Latin American Newsletters since 1967

Peru wins maritime dispute, but some relief for Chile

Peru registered a significant maritime victory over Chile on 27 January; a victory which proved elusive on the high seas during the War of the Pacific (1879-1883) but was achieved on terra firma in a courtroom at The Hague. The International Court of Justice (ICJ) finally brought down the curtain on six years of legal conflict when it announced its verdict on the bilateral maritime dispute brought by Peru in 2008. Both Chile's President Sebastián Piñera and his Peruvian peer Ollanta Humala expressed their satisfaction with the ruling but the visual contrast between them was stark enough to conclude that Humala's assessment that Peru had got 70% of what it had sought was accurate: it was a grave looking Piñera who read a public declaration from the La Moneda presidential palace in Santiago; a jubilant Humala who cavorted around with First Lady Nadine Heredia, cabinet ministers and congressional deputies, all smiles and hands aloft, in Lima.

Peru had wanted the maritime boundary to extend due south-west, running equidistant from where the land border between the two countries meets the Pacific. Chile argued that it should be fixed parallel to the equator in accordance with treaties signed in 1952 and 1954, which it maintained were legally binding.

The ICJ concurred with Chile that the treaties recognised the "tacit" existence of a binding maritime limit parallel to the equator. It ruled that "the maritime boundary between the Parties starts at the intersection of the parallel of latitude passing through Boundary Marker No. 1 with the low-water line, and extends for 80 nautical miles along that parallel of latitude." At this point the direction of the ICJ's line heads south-west, however, adhering much more closely to that in Peru's claim, running along the equidistance line, until reaching 200 miles from the coast (*see map below*).

The practical application of this slightly arbitrary geometric sketch is that Peru picks up approximately 21,000 km² (8,100 square miles) currently in Chilean hands (out of some 38,000 km² in dispute) and a further 28,696 km² (11,079 square miles) of ocean currently in international waters, known as the "exterior triangle" which are more than 200 miles from Chile, but less than 200 miles from Peru's coast.

President Piñera argued that the ruling "confirmed for the most part the arguments presented by Chile" but after 80 miles the new boundary represented "a regrettable loss for Chile". President-elect Michelle Bachelet, who promised to implement the ruling "gradually" after she takes office on 11 March, echoed his words. Chile's disappointment will have been tempered by relief, however, as it could have been worse: Chile retains control over the richest, coastal fishing grounds, where anchovies, used in fishmeal, are most abundant.

There were no exceptions to President Humala's professed satisfaction with the "historic" ruling which "will change Peru's history". In a national address, Humala said Peru had gained "sovereign rights" over 50,000 km² of

New fishing

The first Peruvian ships moved into the newly acquired waters the day after the ruling, for scientific purposes according to President Humala, to monitor the type of fishing available there. Experts suggest this is likely to be species such as mackerel and shark.

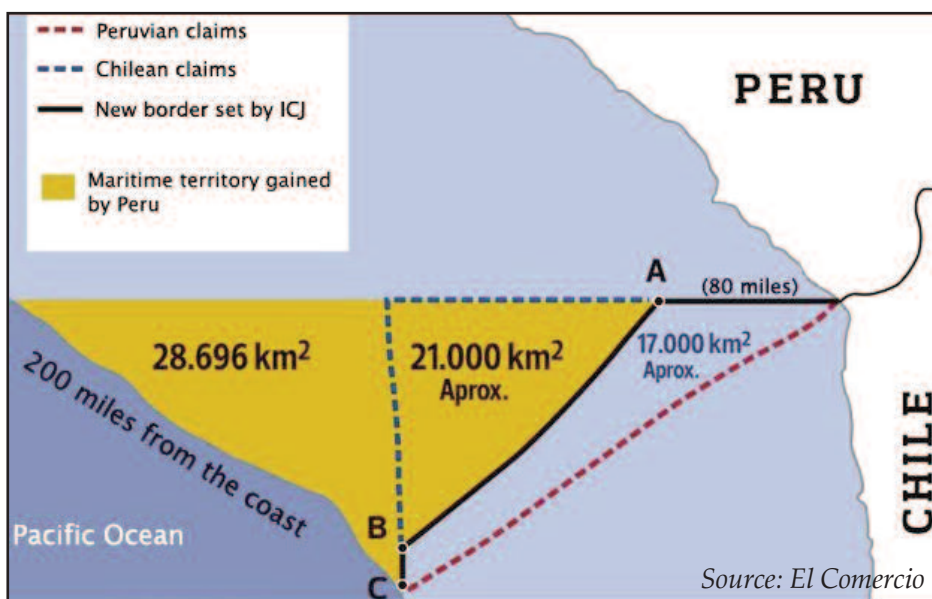
ocean. He eschewed excessive triumphalism, however, expressing his hope that the ruling would open a new stage in bilateral relations. He spoke on the phone with Piñera, who confirmed that Chile would implement the ruling fully, unlike Colombia's President Juan Manuel Santos, who in a televised speech last September refused to apply a ruling issued 10 months earlier by The Hague over a maritime dispute with Nicaragua on the grounds that it contravened the constitution [WR-13-36].

Humala and Piñera met for more than an hour on the sidelines of the Community of Latin American and Caribbean States (Celac) summit in Cuba on 29 January after which both reaffirmed their commitment to enact the ruling in a gradual manner but in the shortest possible time. They said that the two countries would implement the ruling through '2+2' bilateral meetings involving foreign and defence ministers. Humala said that "with this ruling, Peru has closed forever the chapter of border demarcation".

Only time will tell whether this emphatic announcement is borne out but Piñera expressed his hope that once the ruling is fully implemented "we will be able to put behind us once and for all the agenda of the past, which has often divided us, and concentrate all of our efforts on the agenda of the future, which is peace, cooperation and integration for the benefit of both of our peoples".

Humala went on to declare that "Peru and Chile have given an object lesson to the international community in how to confront and overcome their differences in the most constructive way possible, each defending their positions with responsibility, seriousness and maturity". These remarks were intriguing, coming just a day after the somewhat enigmatic response of Bolivia's Vice-President Álvaro García Linera to the ruling. García Linera said that the ruling "set very important precedents".

Bolivia took Chile to The Hague in April 2013 in a bid to recover its long-lost outlet to the Pacific. Chile is on much firmer legal footing here, although Bachelet's newly designated foreign minister, Heraldo Muñoz, who will assume overall charge of the Chilean legal defence, will be hoping that his country's partial reverse in the Peru case is not a portent for its battle with Bolivia in the same forum. Muñoz is very experienced. He had been serving as UN Assistant Secretary General, and Regional Director for Latin America and the Caribbean of the United Nations Development Programme (UNDP).



Bachelet seeks balanced cabinet

Heraldo Muñoz, as foreign minister, will not only have the challenge of implementing the ruling at The Hague in the maritime dispute with Peru (and the legal defence in the same forum against Bolivia) but will also be charged with promoting Latin American integration "without ideological bias and exclusions" to quote President-elect

Cabinet appointments

President-elect Bachelet appointed 14 men and nine women to her cabinet. She said she would have liked gender parity but “it was not possible”. The main ministries, however, also went to men. In addition to those mentioned in the main text, Alberto Arenas, a key campaign adviser, picks up the finance ministry, and will be responsible for Bachelet’s promised tax reform. He was budget director during Bachelet’s first term. Máximo Pacheco, the new energy minister, faces the challenge of transforming Chile’s energy matrix. He favours the construction of hydroelectric stations, a potential concern for environmentalists except that the new environment minister, Pablo Badenier, opposes the construction of the giant Hidroaysén dam in Patagonia.

Bachelet, who argues that “Chile has lost presence in the region; and our relations with our neighbours are problematic”.

Muñoz is one of several experienced politicians appointed by Bachelet to her first (23-member) cabinet. Another is Nicolás Eyzaguirre, who will serve as education minister. Eyzaguirre, who has a doctorate in economics from Harvard, was finance minister under former president Ricardo Lagos (2000-2006). The fact that Bachelet chose to appoint him as education minister, the most problematic cabinet position given the mass protests by students in recent years and the high expectations that she will introduce a sweeping education reform, is a sign that she feels she needs a politician with real clout at the helm.

Another political veteran to be brought into the cabinet is José Antonio Gómez, the leader of the Partido Radical Social Demócrata (PRSD), who was appointed justice minister, a position he filled under Lagos.

Elsewhere in the cabinet, however, there is a marked lack of experience. This is particularly true of the new interior minister and cabinet chief, the most senior position, Rodrigo Peñailillo, 40. Although he was part of Bachelet’s inner circle during her 2006-2010 presidency, Peñailillo, a former provincial governor, is a comparative political neophyte, and has not held a cabinet post. Chilean political commentator Patricio Navia quipped that Peñailillo had been “plucked out of the minor leagues to play in the super league”. Peñailillo’s main selling point is that he is conciliatory, a quality he will require in abundance to keep the ruling Nueva Mayoría alliance together, but whether this will be enough to successfully carve out a deal with the Right to win the requisite votes for constitutional reform is a moot point. Bachelet is said to trust him implicitly, but the same was said of President Sebastián Piñera and his chosen interior minister and cabinet chief, Rodrigo Hinzpeter, similarly inexperienced, who is widely perceived to have been a failure.

Perhaps the most intriguing appointment was that of Claudia Pascual to the women’s ministry (Sernam), which is close to Bachelet’s heart, having served as the first director of UN Women. Pascual belongs to the Partido Comunista de Chile (PCCh), which has expressed its delight at having obtained a cabinet ministry. The same cannot be said for all of the parties within the Nueva Mayoría. Senior politicians in Bachelet’s own Partido Socialista (PS) put on a brave face but must be disenchanted that not only did the Partido por la Democracia (PPD) secure more ministries (six) but it also landed heavyweight posts. The PS was awarded five ministries, along with the centre-left Democracia Cristiana (DC), the largest party in the Nueva Mayoría (*see below*).

Bachelet’s cabinet	
<i>Interior and cabinet chief</i> Rodrigo Peñailillo (PPD)	<i>Secretary general of government</i> Alvaro Elizalde (PS)
<i>Foreign affairs</i> Heraldo Muñoz (PPD)	<i>Energy</i> Máximo Pacheco Matte (PS)
<i>Education</i> Nicolás Eyzaguirre (PPD)	<i>Social development</i> María Fernanda Villegas (PS)
<i>Health</i> Helia Molina (PPD)	<i>Agriculture</i> Carlos Furche (PS)
<i>Transport and Telecommunications</i> Andrés Gómez Lobos (PPD)	<i>Justice</i> José Antonio Gómez (PRSD)
<i>Housing</i> Paulina Saball (PPD)	<i>Mining</i> Aurora Williams (PRSD)
<i>Secretary general of the presidency</i> Ximena Rincón (DC)	<i>National Service for Women (Sernam)</i> Claudia Pascual (PCCh)
<i>Defence</i> Jorge Burgos (DC)	<i>National Assets</i> Víctor Osorio (Izquierda Ciudadana [IC])
<i>Public works</i> Alberto Undurraga (DC)	<i>Sport</i> Natalia Riffo (Movimiento Amplio Social [MAS])
<i>Environment</i> Pablo Badenier (DC)	<i>Labour</i> Javiera Blanco (Independent, close to DC)
<i>Economy</i> Luis Felipe Céspedes (DC)	<i>Culture</i> Claudia Barattini (Independent)
<i>Finance</i> Alberto Arenas (PS)	

Catching a cold

Paraphrasing Metternich, Uruguayan Senator Lucía Topolansky, wife of President José Mujica, told a radio station this week that “when Argentina sneezes, we catch a cold”. After repeated public requests, Argentina’s President Cristina Fernández granted Mujica a short bilateral meeting on the fringes of the Celac summit. Relations between the neighbours remain severely strained following Uruguay’s decision to expand production at a pulp mill located on the River Uruguay. With the sharp devaluation in Argentina’s currency, however, Uruguayan businesses are concerned about a sudden influx of cheap goods. Though little detail of the meeting was released to the press, the two sides have agreed to further talks to discuss both issues.

BRAZIL & SOUTHERN CONE

ARGENTINA | POLITICS

Steady start to relaxation of currency controls

Faced with a steep acceleration in the rate of the devaluation of the peso, and a consequent fall in foreign exchange reserves, on 24 January the Argentine government decided to relax some of the currency controls that, until now, had formed a key part of its heterodox economic policies. Making the announcement on a Friday suggested the government was just as nervous as the rest of Argentina about the reaction of the markets. But despite the confused execution of the policy, its limited scope has meant that so far there has been no serious collapse in the value of the peso.

Friday’s announcement came a day after the government allowed the official exchange rate of the peso to drop 3.4% in a day, the biggest fall in 12 years. With the official rate around eight pesos to the dollar, the black market rate, or ‘blue’ dollar hit Arg\$13. Flanked silently by the economy minister, Axel Kicillof, the most powerful man in government, the cabinet chief, Jorge Capitanich, said that following the government’s intervention in the currency markets, the dollar had “reached an acceptable level for the purposes of economic policy”.

From 27 January, Capitanich said, Argentines with a minimum monthly income of Arg\$7,200 (US\$900) would be able to purchase up to the equivalent of 20% of their salary in dollars, up to a maximum of US\$2,000. The dollars must be deposited in a bank account for at least a year; if withdrawn before this time they would be subject to a 20% charge. All applications for dollar purchases would have to go through the official tax agency, Afip.

Communication breakdown

All of Argentina’s major newspapers, both pro and anti-government, reported that Capitanich had also said that in future the tax on international items bought on credit card would be 20%. Just one month ago the government had raised the tax to 35%. But in an interview with the government-friendly *Página/12* on 25 January, Kicillof said the rate on card purchases would not change.

The economy minister also insisted that the dollar purchasing scheme would work in a way “slanted towards the benefit of those who have the least”. It is not immediately clear how this is the case, given that only around 20% of the Argentine population has access to the requisite resources to be allowed to buy the ‘dólar ahorro’ (‘savings dollars’). By 29 January, according to Capitanich, Afip had received around 200,000 applications, with a total value of US\$100m and had so far authorised around US\$13m in ‘savings dollars’.

Since the announcement the official dollar rate has remained relatively stable at just over Arg\$8/US\$. The ‘savings rate’ was around Arg\$9.4/US\$, while demand for the ‘blue’ dollar has eased in the immediate wake of the loosening. Black market operations have been kept to a minimum in the three working days since the government’s decision, but the ‘blue’ dollar has continued to creep up. Given that only individuals are eligible for the savings scheme, companies will continue to resort to the black market for liquid currency.

Central bank

The central bank has continued to intervene in the markets. On 26 January it was forced to sell around US\$100m in the currency markets to prop up the official peso rate; the following day it spent another US\$115m. Foreign reserves are now under US\$29bn.

Energy shortfall

Increased demand for air-conditioning during Argentina's long, hot summer has been at least partially responsible for the weeks of blackouts many Argentines, particularly in Buenos Aires, have been enduring. Following a year in which Argentina's production of natural gas fell by 4.4%, and its oil output by 1.7%, on 28 January the government announced an increase in the money allocated to the energy sector. In the 2014 budget the government has earmarked Arg\$72.8bn to the electricity market wholesaler Cammesa and the state-owned energy company Enarsa, which are responsible for the purchase of natural gas to supply the local market and for subsidies in the metropolitan area. This will exceed the budget for 2013 by 2.7%.

Two days later, the central bank issued a tranche of Lebac bills and Nobac notes to mop up a total of Arg\$9bn, in both pesos and dollars. It launched the Lebac in dollars for new fixed-income deposits as part of its effort to vacuum up the excess dollars in the market following the creation of the 'savings dollar'.

Interest rates for 70 and 98 day notes in pesos reached 25.5% and 25.89% respectively, six percentage points more than the usual rates. This is having a knock-on effect on the Badlar rate, which is paid by banks on wholesale deposits in pesos. Previously, at around 20%, the Badlar rate failed to provide depositors with a real return; now it is estimated at between 25-30% which could result in a substantial flow of money from dollars to pesos.

Under attack

Having disappeared from the public eye for over 40 days, President Cristina Fernández has kept up a Twitter commentary on the new government policy from the Community of Latin American and Caribbean States (Celac) summit taking place in Cuba this week. The president blamed international banks for speculating with the 'blue' dollar. "It seems that they want us to eat soup with a fork again," President Fernández wrote. "Who? The same people as always... the banks: only through them can anyone conduct speculative manoeuvres in the markets".

Capitanich echoed her argument. In his daily press conference on 28 January, he explained what, precisely, was up for discussion at the Celac summit. "One of the subjects of the talks between the presidents of Argentina and Brazil has been precisely the speculative attacks that emerging countries are facing," he said. "We have seen it with Turkey, India, South Africa, Brazil. It is a strategy that has a modus operandi that has to do with systematic attacks by concentrated economic groups that many times rely on the help of concentrated media groups."

Capitanich was also forced to deny claims that the government was planning to publish the names of people buying dollars; another example of the predominantly hostile Argentine media perhaps choosing to misunderstand a deliberately vague comment by the cabinet chief. "I did not say that names would be published as a newspaper has said but that the data would be released, such as the amount of dollars requested and the operations executed," Capitanich said.

Inflation remains the most serious popular concern for the government. There are signs that the government's latest attempts to freeze prices is not working effectively. Under the Precios Cuidados scheme launched earlier this month, 194 basic products should have their prices fixed under a supposedly voluntary scheme with supermarket owners.

On 29 January Capitanich said that if the government finds supermarkets are not sticking to the agreement, it could carry out a range of options, such as fines, store closures, prohibiting imports and withdrawing the benefits of public policies. Raising prices, Capitanich argued, is "unpatriotic".

Unions unite

Hugo Moyano, the leader of Argentina's umbrella trade union Confederación General de Trabajadores (CGT), and Luis Barrionuevo, the leader of the CGT's breakaway 'Azul y Blanco' faction, have announced an end to hostilities ahead of the 2015 presidential elections, after meeting with the right-wing mayor of Buenos Aires, Mauricio Macri. Although no official agreement was signed, the apparent alliance represents the first serious opposition electoral pact. "We believe in the importance of the workers in the country that is to come," Macri said, after the meeting with 40 union leaders.

Trying to make sense of Rousseff's foreign policy

In her first three years in office, President Dilma Rousseff has made only a few more trips abroad than her predecessor Lula da Silva did in his first year in office alone. While Lula's term of office was characterised by an energetic, if contentious, foreign policy, Rousseff has been largely content to focus on domestic issues. As such her recent travels to the World Economic Forum (WEF) in Davos, and the Community of Latin American and Caribbean States (Celac) in Cuba have begged the question of what her foreign policy priorities are. However, the immediate aftermath of the trip has been overshadowed by a row about who paid for what during an unscheduled stop-over in Lisbon.

Dilma in Davos

Mindful of the increasingly gloomy prevailing analysis of Brazil's economy, Rousseff headed to Davos to reassure international investors that her government remained committed to fighting inflation and balancing the public accounts. While two years ago she scorned Davos in favour of Havana, for the meeting of the World Social Forum, Brazil's sluggish economic performance motivated her trip to Switzerland. For the most part, her speeches were well-received, though many of the business leaders expressed a hope that her words would be followed by action.

Kenneth Rogoff, the Harvard University economics professor and commentator, wrote that Rousseff's presence alone had signalled to investors an intention to rebalance Brazil's priorities. Other commentators thought that in the week in which Argentina's currency began unravelling, and jitters about the vulnerability of emerging markets, Rousseff's attendance helped to differentiate Brazil from its southern neighbour.

Then Cuba

While the president's trip to Davos was almost exclusively designed to appeal to foreigners, her stay in Cuba was largely for domestic consumption. While 31 heads of state attended the conference, something of a coup for the Caribbean island, Rousseff went far beyond the requirements of summit diplomacy. By meeting former president Fidel Castro and travelling to the Mariél Port, where the Brazil development bank, Bndes, is investing over US\$1bn, Rousseff sought to reassure left-wing ideologues from her Partido dos Trabalhadores (PT) that she had not abandoned her socialist inheritance.

Accompanied to the island by her health minister and PT colleague, Alexandre Padilha, who is soon to quit to run for governor of São Paulo, Rousseff thanked the Cuban government for its supply of doctors to Brazil, under the Mais Médicos programme. She also told President Raúl Castro that Brazil wanted to be a "first order" partner to Cuba.

Between Switzerland and Cuba is Portugal. With the president's agenda free on 25 and 26 January, her party decided to stop over in Lisbon, where they stayed in a luxury hotel and ate at one of the city's top restaurants. The unscheduled stop prompted questions about who exactly had picked up the bill for the excursion, with Rousseff being forced to insist that she paid for her part of the meal (but failed to mention who paid the US\$26,000 cost of the hotel suite).

Since 2012, Rousseff has made six stop-overs during foreign trips that have only appeared on the presidential agenda after the fact. While the squabble over the bill may appear insignificant, commentators have questioned whether Rousseff sees foreign travel as a way to escape, albeit briefly, domestic media scrutiny. Certainly, as the trip to Switzerland and Cuba in the same week suggests, there is little coherence in Rousseff's foreign policy. Following the removal of foreign minister Antonio Patriota last year, his replacement, Luiz Alberto Figueiredo, has spurned many opportunities to engage in international forums. While world leaders gathered in Switzerland last week to discuss the future of Syria, Figueiredo was opening a football stadium in Natal.

“Since 2012, Rousseff has made six stop-overs during foreign trips that have only appeared on the presidential agenda after the fact. While the squabble over the bill may appear insignificant, commentators have questioned whether Rousseff sees foreign travel as a way to escape, albeit briefly, domestic media scrutiny.”

Hydrocarbons bonanza

On 16 January Carlos Villegas, the head of the state energy company,

Yacimientos

Petrolíferos Fiscales

Bolivianos (YPFB)

said that Bolivia had received US\$22.3bn

over the last eight

years in

hydrocarbons

revenue, of which

US\$5.58bn was

received in 2013, up

30% on 2012.

Villegas said that the

average volume of natural gas

production in 2014

was projected to rise

to 64.5m cubic

metres per day

(mcm/d), up from

56.3m cm/d in 2013 –

a significant increase

on the 35-38m cm/d

produced in 2005,

the year before

President Morales

took office.

Morales names new cabinet; addresses key weakness

President Evo Morales last week swore in his new 21-member cabinet, ahead of what will be a crucial year for his Movimiento al Socialismo (MAS) government, with general elections due in October. His ministerial team was largely left intact, reflecting satisfaction with his government, which remains popular. The only significant change was to the justice portfolio, indicative of what Morales himself has acknowledged remains a weakness of his administration.

As is now customary in his annual balance sheet, President Morales trumpeted the progress made by his flagship social programme 'Bolivia Cambia, Evo Cumple' – a key factor in his enduring popularity – which is funded by hydrocarbons revenue following the nationalisation of the sector in 2006, the year the MAS government took office for the first time (see sidebar). In his 22 January address to the nation, Morales said his government had invested US\$951m between 2007 and 2013 in various projects across the country as part of 'Bolivia Cambia, Evo Cumple' in the areas of road infrastructure, education, health, sports, basic sanitation and agriculture.

Also mentioned in Morales' speech (and key to his popularity) are cash transfer programmes (which are also funded through hydrocarbons revenue) like the Bono Juancito Pinto, a B\$200/US\$29 subsidy for school children introduced in 2006; Renta Dignidad, a universal pension scheme for Bolivians over 60 who lack pensions, which provides monthly handouts of between B\$200 and B\$250; and the Bono Juana Azurduy, which provides annual handouts of B\$1,820/US\$265 to pregnant women or those with children under two years of age. These programmes, which benefit at least 3.2m of Bolivia's 10.5m population (on official figures recently cited by the national daily, *La Razón*) continue to have a significant effect on Bolivia's poverty and human development indicators [WR-13-45].

Interestingly, analysts cited in Bolivia's state mouthpiece *Cambio* also highlighted the December 2013 launch of the new satellite Túpac Katari [WR-14-02] and diplomacy & international relations as key achievements over the past year. Singled out were Bolivia's re-launch of relations with Paraguay in December 2013 [WR-13-49] and less antagonistic relations with Peru, with which Bolivia has launched various anti-crime initiatives, particularly in recent months (focusing on efforts to clamp down on drugs and contraband). As well as the fallout from what the Morales government called "that strange episode in Europe" – where France, Italy, Portugal and Spain refused to allow Morales' presidential jet to land amid suspicion that the fugitive US whistleblower, Edward J. Snowden, was on board [WR-13-26] – *Cambio* also mentions other efforts to boost Bolivia's international standing. These include the UN's designation in February 2013 of Morales as "ambassador for quinoa" for 2013 as well as Bolivia's assumption on 8 January 2014 of the year-long pro-tempore chairmanship of the UN's G-77 of developing countries plus China.

Backlog

Denis Racicot, the representative of the Office of the United Nations High Commissioner for Human Rights (OHCHR) in Bolivia has frequently flagged up as a cause for concern the backlogs in Bolivia's judiciary and the lack of access to justice. In June 2013, for example, he noted that not even half (47%) of Bolivian municipalities has access to justice/judicial authorities. A February 2012 report by the OHCHR said that there were just 764 judges in Bolivia (population of 10.4m).

Justice – the Achilles heel

As well as creating a new sports ministry, to be headed up by former footballer Tito Rolando Montaña Rivera, Morales' other key ministerial change was to name the deputy minister for consumer rights, Elizabeth Gutiérrez Salazar, as his new justice minister, replacing Cecilia Ayllón, who had been in the post since January 2012.

In his state-of-the-nation-address, Morales himself identified justice as one of six key weaknesses/errors (*see box*), an issue most recently flagged up by the US-based NGO, Human Rights Watch (HRW), in its annual report, which was released on 21 January. Highlighting as Bolivia's key human rights concern, "long-standing problems in Bolivia's criminal justice system, such as extensive and arbitrary use of pre-trial detention and long delays in trials", HRW notes that "as of September 2013, the government reported there were 14,770 inmates in prisons with a capacity of under 5,000. Eighty percent of those prisoners, President Morales said at the time, were being held due to 'delays of the justice system'".

HRW cites a report by the Office of the United Nations High Commissioner for Human Rights (OHCHR) which notes that as of September 2012, 84% of prisoners in Bolivia were awaiting trial. So far Morales' main response has been to provide an amnesty for some prisoners first decreed in December 2012. Yet the HRW report points out that the Bolivian Catholic Church "estimated that only approximately 600 prisoners in pre-trial detention would be eligible for release, due to stringent eligibility requirements".

Other weaknesses

As well as justice, President Morales cited as other errors committed in recent years, the "lack of socialisation" regarding his controversial plan to build a highway through an indigenous territory and national park, Isiboro Sécore (Tipnis) – which has since resulted in key indigenous organisations like the Consejo Nacional de Ayllus y Markas del Qullasuyu (Conamaq) and a faction of the lowlands Confederación de Pueblos Indígenas de Bolivia (Cidob) distancing themselves from the MAS government. He also mentioned the irregular US\$30m purchase in 2011 of 16 ships by the state shipping company, Empresa Naviera Boliviana (Enabol) from South Korea's General Marine Business; confusion over differences between the preliminary and final reports of the 2012 census [WR-13-39]; problems regarding access to health; and the delay over the Mutún iron ore mine, located in the eastern Santa Cruz region, after the US\$2.1bn contract awarded to India's Jindal Steel & Power to develop 50% of the mine was cancelled in July 2012.

COLOMBIA | POLITICS & SECURITY

Farc leadership tries to smarten up its act

The secretariat, or high command, of the Fuerzas Armadas Revolucionarias de Colombia (Farc) took unprecedented action on 24 January. Not only did it concede that a motorbike bombing in the municipality of Pradera in the south-western department of Valle del Cauca, which claimed one life and left 61 people injured eight days earlier, had been carried out by a Farc unit but it also admonished the guerrillas responsible. This is the first time the secretariat has ever publicly condemned an attack and reproved the guerrillas behind it. This strongly suggests that the Farc leadership is acutely conscious that it must improve its image if the public is to grant any indulgence to the Farc at all in an eventual referendum on the peace process.

PC convention farce

Party veteran Roberto Gerlein, head of the PC senate list, left the convention after he was drowned out by boos while attempting to offer his support for President Santos: 14 senators and more than 1,000 of the 2,600 PC delegates present left in solidarity. Their departure seemed to affect the electronic voting system: after a recess declared by the party president, Ómar Yepes Alzate, in an attempt to restore calm, a first vote showed 677 in favour of the party going with its own candidate and 132 in favour of backing Santos; upon repeating the vote, strangely, there were 1,190 votes for the party's own candidate and 119 for Santos. In a subsequent vote Marta Lucía Ramírez trounced the party's other two presidential aspirants.

The Farc secretariat said there had never been any intention to cause civilian deaths but this did not “exempt from responsibility” the guerrillas behind the attack who it accused of showing “a lack of foresight” for not taking adequate precautions. “This is not how we wage war, this is not the philosophy or the political or military orientation that characterises us,” it went on, while adding “our open reproach” for the guerrillas responsible and promising “the application of corresponding corrective discipline”. The attack was carried out by the Arturo Ruiz mobile column, one of the Farc’s elite units, which is part of the Bloque Occidental commanded by ‘Pablo Catatumbo’ (Jorge Torres Victoria), a member of the secretariat and part of the Farc negotiating team in Havana. President Juan Manuel Santos said he appreciated that the Farc had “recognised being the perpetrators of this attack”.

Support for the peace process with the Farc jumped by five percentage points in January, compared with the previous month, to 39%, according to a poll by Cifras & Conceptos released this week; 55% supported a popular referendum to resolve the matter; and 40% the idea of a constituent assembly advocated by the Farc but rejected by President Santos. This kind of contrition can only benefit the Farc, despite entrenched public distrust.

The same pollster showed support for Santos recovering to 50% in January from 43% the previous month. There is still hostility to his re-election bid, however, as the survey said he would poll just 26% if the elections were held now, albeit this was comfortably ahead of his nearest challengers - Enrique Peñalosa, of the Alianza Verde, and Óscar Iván Zuluaga, of Centro Democrático, the party of former president Alvaro Uribe (2002-2010) - who both received 8%.

A new hat was thrown into the ring on 26 January after delegates at the convention of the Partido Conservador (PC), part of the ruling coalition, opted to back the presidential candidacy of Marta Lucía Ramírez. Ramírez might be compelled to withdraw her hat, however, if the electoral authorities accept a challenge by pro-Santos delegates who stormed out of the convention before the vote (*see sidebar*).

Uribe swiftly congratulated Ramírez, who served as defence minister for 15 months at the start of his first term in office, on her triumph. In a short victory speech Ramírez said it was “totally false” that she would seek an alliance with Uribe’s CD, although much of what she said fits very comfortably with his political views. “For many years our institutional stability has been a mere appearance,” Ramírez said. “Peace needs a good dose of reconciliation but also justice”, she went on, adding that she would give the peace process with the Farc a deadline of four months if she was elected.

Santos will not have been too disconcerted by developments at the PC convention. He was well aware that the party was riven by internal conflict and that such an outcome was possible. The PC’s divisions will undermine Ramírez’s candidacy, and it is perfectly possible that, if he is victorious in May, Santos could welcome the PC back into the fold in congress. PC congressional candidates are concerned that the party will be punished in March’s elections, although the public might be attracted by the prospect of a congress less subservient to Santos.

Chevron praises**Pdvsa partnership**

On 28 January Venezuela's state owned oil firm, *Petróleos de Venezuela (Pdvsa)* issued a press release with a statement by Kelly Hartshorn, Latin American manager at US oil major Chevron, in which she praised the recent performance of *Petropiar*, Chevron and Pdvsa's joint venture in the Orinoco Belt. According to the statement, after conducting her first visit to the Orinoco Belt, Hartshorn praised the "excellent performance of the human resources that make production possible at *Petropiar*". *Petropiar* produces 158,000 barrels of crude a day from its 507 wells in the Orinoco Belt, and Hartshorn concluded by stating that "We feel proud of the results obtained and of being partners in a firm such as *Petropiar*".

ECUADOR | Limestone deposit. On 28 January Ecuador's national mining firm (Enami) announced the discovery of a large limestone deposit in the rural Zumba area of Zamora-Chinchipe province in the southern Amazon region. According to an Enami statement, a series of studies carried out on the Isimanchi deposit and audited by the Committee for Mineral Reserves International Reporting Standards (Crisco) found that the deposit may contain some 67m tonnes (t) of high purity (85%) limestone.

Limestone is one of the main materials used in the production of cement and Enami has calculated that the deposit has a potential value of between US\$300m and US\$400m, given that currently the international market price of limestone fluctuates between US\$5 and US\$6 per tonne. Enami CEO Santiago Yépez said that the results show that the deposit has a lot of potential and that the idea now is to move on to the next phase and begin analysing the viability of commercially exploiting the site.

According to Yépez, this next phase is to be carried out by the *Empresa Pública Cementera de Ecuador (EPCE)*, the national state-owned cement firm. Pointing out that Isimanchi is the first advanced exploration project carried out in the country "by a national firm and Ecuadorean technicians", Yépez said that the its development "reaffirms Enami's commitment towards changing the country's productive matrix" as intended by the government led by President Rafael Correa.

On the same day Strategic Sectors Coordination Minister Rafael Poveda presented the government's 'investment catalogue of strategic projects'. Poveda said that the catalogue comprises a set of 'mega projects' worth US\$28bn all aimed at changing the country's productive and energy matrix. He reiterated the Correa administration's goal of promoting the industrialisation of the domestic economy so as to break with the current raw material export-dependent model. The catalogue includes a number of projects, including energy generation, hydrocarbon production and steel production which, according to Poveda, will provide a "useful tool" for national and foreign investors to get a clearer picture of the strategic projects that the government intends to pursue over the next three years.

COLOMBIA | Argos breaks into the top 20. On 22 January Colombia's leading cement producer, Argos, announced that it had completed the purchase of a cement producing plant and other related assets in Florida (US) from Vulcan Materials for US\$720m. The deal, which must still be approved by US regulators, will allow Argos greater access to the US market as well as consolidate the firm's presence across the Caribbean Basin, where it now has production facilities in Colombia, Central America & the Caribbean and also in North America.

The new plant will allow Argos to increase its installed cement production capacity from 17m tonnes (t) a year to 20m t a year, turning the firm into the second largest cement producer in Florida and the south-eastern US. In fact sector analysts estimate that the deal will allow Argos to go from being the world's 21st largest private cement producer to the 18th.

Argos president, Jorge Mario Velásquez said that the deal was part of the firm's bid to take full advantage of the recovery of the US's construction sector following the pronounced slump it exhibited in 2007. Velásquez explained that back in 2007 cement consumption in Florida amounted to 11m t a year, roughly the same level of cement demand in Colombia today. And, while after the crisis demand of cement in Florida fell to 4m t a year, it is expected that the incipient recovery will result in demand moving back towards 2007 levels by 2020. As Rodrigo Niño, the president of real estate firm Prodigy Network, explained, local demand for new buildings in the US has "shot up" as the recovering US economy and the strengthening US dollar is attracting investors from all over the world.

Meanwhile, Velásquez also pointed out that while Argos expects that real estate construction projects will be one of the drivers in the growth of cement demand in the US this year, the US government's US\$7.3bn road infrastructure development plans would also significantly help boost demand.

Vigilantes to be drafted into security organs**Davos**

During question time in Davos, President Peña Nieto spoke at some length about the security situation in Mexico and outlined his government's plans. He said that the police were being better trained and equipped and placed under a single command; that a new criminal justice system, of oral trials, was being readied for launch in 2016 to "apply justice more quickly"; and that the attorney general's office (PGR) had been granted autonomy under the recent politico-electoral reform.

After much flip-flopping over the course of the last year, the federal government this week settled on assimilating the 'self-defence' groups in the beleaguered south-western state of Michoacán. The global media spotlight is on the vigilantes in Michoacán, as President Enrique Peña Nieto discovered during his appearance at the World Economic Forum (WEF) in Davos on 23 January. After a botched operation by federal forces earlier this month to disarm the vigilantes (who have refused to hand over their weapons) [WR-14-02], the government now plans to absorb them on a "temporary" basis into the 'rural defence corps'. This scheme will face serious scrutiny in the months ahead as it will legalise groups who have been operating outside the rule of law.

The majority of the leaders of 'self-defence' groups signed up to the eight-point accord with Michoacán Governor Fausto Vallejo and the new federal security commissioner, Alfredo Castillo. The 'self-defence' groups will now be "institutionalised", to quote the interior ministry (Segob), by entering the rural defence corps, which date back to 1961 and the presidency of Benito Juárez. The rural defence corp operated within national guard units controlled by state governors until shortly after World War II when many became defunct. They acquired their current name in 1974, switching from 'rural guards'. Primarily providing rural citizen protection, they have a presence in 21 states, and are officially part of the Mexican army. They are provided with uniforms and can carry arms; they receive benefits, but are unpaid.

Reviving the rural defence corps is designed to confer some legitimacy on the vigilantes, who have been useful for the federal government but are now proving embarrassing: while President Peña Nieto said he was "very glad" his interviewer in Davos had chosen to ask him about the role of the vigilantes, it is clear he would rather this issue did not crop up in international forums and that it would be preferable if an institutional arrangement could be reached to regulate their interactions with the authorities.

Under the accord, leaders of the 'self-defence' groups will have to provide the names of their members who want to enrol in the rural defence corps. The vigilantes will not be required to surrender their arms but they will have to register them with the armed forces. Those who "meet the requirements" could join the municipal police. Details are absent from the accord. It is not clear, for instance, what vetting process will take place to ensure none of those who join the rural defence corps have colluded with organised crime; whether they will receive salaries; exactly how they will cooperate with the security forces; or, most important of all, what the timeframe for "temporary" is.

Vigilante leaders were given another sign of the federal government's intent to wind up the drug trafficking organisation (DTO) Los Caballeros Templarios (LCT) shortly before the signing of the accord, with the capture of Dionicio 'El Tío' Loya Plancarte, one of the most senior LCT leaders upon whose head was a M\$30m (US\$2.3m) reward. 'Self-defence' groups had conditioned handing in their arms two weeks ago upon the arrest of the seven top LCT leaders: two have now been seized by federal forces. Although the vigilantes are no longer required to hand in their weapons, their acceptance of the accord could also be attributed to the progress of the security forces against the LCT.

However, there are no signs that the 'self-defence' groups have given up on their goal of controlling all of Michoacán's 113 municipalities. On 29 January they took control of the municipality of Los Reyes, outside of the conflict-

Posco plant

On 27 January Mexico's economy minister, Ildefonso Guajardo, inaugurated a new galvanized steel production plant built by Korean firm, Pohang Iron and Steel Company (Posco), in Altamira, Tamaulipas. Guajardo said that the US\$300m plant will supply 60% of the demand of galvanized steel sheets used in the domestic car manufacturing industry; and generate some 2,200 jobs. The Altamira plant is Posco's second such plant in Mexico and Guajardo said that the decision to continue investing in Mexico shows that foreign investors are optimistic about the country's prospects. "A firm such as Posco bets on Mexico because it knows that invariably it will continue to expand and conquer new export markets for its products," Guajardo said.

torn area of Tierra Caliente, although Estanislao Beltrán, a senior leader of the vigilantes, maintained that this was the result of a spontaneous uprising by local inhabitants "tired of the injustice of organised crime to which they are subjected".

Another concern for the federal government is that 'self-defence' groups will start to mushroom in other states, encouraged by its tolerance and assimilation of Michoacán vigilantes and the prospect of federal assistance. On 26 January hundreds of members of 'self-defence' groups in neighbouring Guerrero took control of eight municipalities in the vicinity of the state capital Chilpancingo, arresting a dozen alleged extortionists, and are converging on the capital. Two days earlier some 500 inhabitants of one of these municipalities, Ocotito, had demonstrated in support of the vigilantes in their fight against Los Rojos, the armed wing of the Beltrán Leyva DTO, and called for federal protection.

Federal investigators reported earlier this month that the LCT and Beltrán Leyva DTOs were attempting to forge links, a sign that the former is starting to feel the pressure. Two representatives of the DTOs who met in the Distrito Federal to coordinate future actions were arrested by Mexican marines.

New anti-kidnapping strategy launched

The interior minister, Miguel Ángel Osorio Chong, officially unveiled a new national anti-kidnapping agency on 28 January under a former federal prosecutor, Renato Sales Heredia. Directly answerable to the interior ministry (Segob), the agency will focus its attention on the 10 states with the highest instances of kidnapping - Durango, Michoacán, Tabasco, Oaxaca, Veracruz, Guerrero, Tamaulipas, Estado de México, Morelos and Zacatecas - where 78% of cases occur.

President Enrique Peña Nieto ordered the creation of an agency last month after the release of figures showing 1,695 kidnappings in 2013, up 20% on the previous year (although these figures are a bit misleading as only a tiny fraction - an estimated one in ten - cases are reported). Each of Peña Nieto's three immediate predecessors launched similar strategies - Ernesto Zedillo (in 1997); Vicente Fox (in 2004); and Felipe Calderón (in 2008) - which Osorio Chong said had been "insufficient". For the latest plan to meet with more success, it will need real political will behind it.

Under the new strategic plan, the national agency will provide specialised training for individual state anti-kidnapping units (UECS in the Spanish acronym), which will be constantly evaluated. Sales will have broad powers to coordinate between federal and state authorities. He also promised "efficient coordination" with civil society.

TRACKING TRENDS

MEXICO | Trade deficit. The Mexican economy closed 2013 with a trade deficit of US\$1bn, much higher than the US\$46m deficit reported in 2012, the national statistics institute (Inegi) reported on 27 January. On Inegi's figures, Mexico's total exports in 2013 amounted to US\$380.2bn, 2.6% higher than in 2012; while exports totalled US\$381.21bn, 2.8% higher than in 2012. According to Inegi, the result came about as a result of a reduction in the trade surplus on oil products which fell from US\$11.75bn in 2012 to US\$8.71bn in 2013, a 25.8% reduction. However, this was mostly mitigated by a 17.5% reduction in the non-oil trade deficit which went from US\$11.79bn in 2012 to US\$9.72bn in 2013.

More positively, the Inegi figures also show that while imports increased marginally more than exports over the period, the majority of all imports (75%) corresponded to intermediate goods, followed by consumer goods (14.6%) and capital goods (10.4%). This suggests that the vast majority of the imports coming into Mexico are not just consumer goods but goods used to produce other goods or improve production levels. Pointedly the breakdown of the export data shows that 81.5% corresponds to manufactured goods, with 14.3% corresponding to oil and derivatives and 2.9% to agricultural goods, once again reinforcing the idea that Mexico's economy is becoming increasingly industrialised.

Hernández takes office

Juan Orlando Hernández was sworn in as president on 27 January for a single four-year term. This is the first time that the traditional Partido Nacional (PN) has retained power for two consecutive terms since the country returned to civilian democratic rule in 1980. It returns with a significantly reduced 48 seats in the 128-member unicameral legislature (from 71), but Hernández is nothing if not a can-doer.

As anticipated, Hernández retained several key figures from the previous PN cabinet including the finance, security, education and foreign ministers. In a major reform, however, the cabinet has been restructured into seven 'super-ministries'. These are: security (comprising the security and defence ministries); social development (health, education & social development portfolios along with related institutes); energy & infrastructure (public works, transport & housing, along with the national electricity, telecoms and port companies); governability (interior & population and the national statistics institute); competition & labour (labour, industry and trade); economy & finance (comprising the finance secretariat, tax authorities and central bank) and investment and cooperation (foreign relations and tourism).

The key figure in all of these changes will be Jorge Ramón Hernández Alcerro. A former ambassador to the US (2010-2014, 1990-1994), he has been appointed as 'general coordinator' of the super-ministries. One of the authors of the 1982 constitution, Hernández Alcerro has held top posts in previous PN administrations like minister of governance under former president Ricardo Maduro (2002-2006).

Cabinet list, January 2014

<i>Coordinator General</i>	Jorge Ramón Hernández Alcerro
<i>Governability and Decentralisation</i>	Ricardo Álvarez
<i>Interior and population</i>	Rigoberto Chang Castillo
<i>Presidency</i>	Reinaldo Sánchez
<i>Central Bank of Honduras</i>	Marlon Tábora
<i>Finance</i>	Wilfredo Cerrato
<i>Adviser and executive secretary of the council of ministers</i>	Ebal Díaz
<i>Infrastructure, Energy and Soptravi (Public works, transport and housing)</i>	Roberto Ordóñez
<i>Inclusion and Social Development</i>	Lisandro Rosales
<i>Security</i>	Arturo Corrales
<i>Health</i>	Yolany Batres
<i>Investment</i>	Alden Rivera
<i>Agriculture and Livestock</i>	Jorge Lobo
<i>Communications and Strategy</i>	Hilda Hernández
<i>Education</i>	Marlon Escoto
<i>Foreign Relations</i>	Mireya Agüero
<i>Defence</i>	Samuel Reyes
<i>Labour</i>	Carlos Madero Erazo
<i>Natural Resources, Environment and Mining</i>	José Antonio Galdámez
<i>Vice minister for security</i>	Alejandra Hernández

The first act by the new 'rainbow' congress was to undo part of the economic adjustment package (*el paquetazo*) rushed through by its PN-controlled

**US and
shutdown law**

Notably, Hernández in his inauguration ceremony took a swipe at the country's main ally, the US, calling directly on the administration led by President Barack Obama to take more responsibility for the plague of US-bound drugs passing through Honduras. "80 percent of the drugs heading to the United States go through the country leaving behind death, pain and mourning", Hernández stated, promising an iron fist against drug gangs and other criminals. Hernández's hardline militaristic approach to security has come under intense scrutiny. The US has yet to comment on the newly approved shutdown law.

Top brass

President Hernández announced eight new generals, including Francisco Isaías Álvarez, commander general of the army; Héctor Orlando Caballero, head of the navy; Jorge Fernández, head of the airforce; and Mario Edgardo Castillo Mendoza, head of the presidential chief of staff. Fredy Santiago Díaz Zelaya is the head of the armed forces. His predecessor, René Osorio Canales, will be given a post in government, apparently.

predecessor in December. By an overwhelming vote of 124 votes in favour, the congress voted on 29 January to remove the controversial 15% retail sales tax on over 300 basic consumer goods, including 72 items in the basket of essential goods. This was highly controversial in a country where an estimated 70% of the population (of 8.5m) is now officially classed as living in poverty. The now-former president Porfirio Lobo took the hit on behalf of his elected successor, declaring that the package was 'necessary', not least as part of the renewed efforts to secure a new financing agreement with the International Monetary Fund (IMF).

The new opposition bench led by former president Manuel Zelaya (2006-2009) immediately declared it a mission to overturn the *paquetazo*, staging public protests against it in December and January. Yet it was not Zelaya but his former colleagues in the Partido Liberal (PL), the country's other traditional party, that managed to get the *paquetazo* amended. Last week, in return for the PL's support of the PN's nominees to the congressional leadership, Hernández agreed to amend the *paquetazo*. The PN duly voted as a bloc in favour of the amendment, accompanied by the PL (which has 27 seats).

Zelaya's Libertad y Refundación (Libre), which with 37 seats is the second largest bloc in congress, tried to present a motion to throw out the *paquetazo* in its entirety, but the PN and the PL bloc rejected that. In the end nearly all the deputies present in the chamber voted in favour of the more limited amendment, including Libre and the also-new opposition Partido Anti-Corrupción (PAC), led by the TV presenter-turned-2013 presidential candidate Salvador Nasralla, which has 13 seats. Three other smaller parties with one vote each - Partido Demócrata Cristiano (PDC), Partido Innovación y Unidad Social Demócrata (Pinu-SD) and Partido Unificación Democrática (PUD) - are allied with the PN.

The amendment will cost between US\$49m and US\$73m in lost revenues, of the US\$800m in total estimated additional revenues expected under the *paquetazo*. "This law means a strong reduction in the programmed revenues, but sacrifices must be made in the name of governability in the country. Now the government will have to be more efficient in capturing revenues and improving savings in public spending," stated the head of the congressional finance commission, Francisco Rivera (PN).

Rivera did not elaborate, but given that the Lobo government had difficulties last year in meeting basic current expenditures including salaries for key workers like doctors and teachers, it may be difficult to come up with other savings. The fiscal deficit is already running at an estimated 7.8% of GDP. The aim of the adjustment is to reduce that to 4.7%. A financing deal with the IMF clearly is critical; Finance Minister Wilfredo Cerrato has denied that a currency devaluation, which would help the government's finances but impact on the population via higher inflation, is on the cards.

Anti-corruption

Hernández signed a letter of intention on 29 January with the director of Transparency International (TI) in Honduras, Alejandro Salas. Thanking TI for recently 'accompanying' the Honduran government in things like public auctions and the purchase of medicines for the public health sector, he said that his new government intended to "make an extraordinary leap in transparency and from the government set an example for others to follow and change this culture". As witness of honour at the ceremony the document was also inked by Father Carlos Rubio of the Cathedral of Tegucigalpa, Pastor Alberto Solórzano of the Evangelical Church, and Arnaldo Bueso of the national anti-corruption council.

Yet the same day, the supreme court ordered the 're-integration' of six officers removed from the national police on the orders of its then-commander Juan Carlos Bonilla, late last year. The officers' lawyer, Gladys Matamoros, said that Bonilla "did not have the capacity" to remove the officers. On 22 January the outgoing congress eliminated the public security reform commission, arguing that it had failed to deliver the intended results.

Tax take

On 20 January the Organisation for Economic Co-operation and Development (OECD), the United Nations Economic Commission for Latin America and the Caribbean (Eclac) and the Inter-American Centre of Tax Administrations (Ciat) released a report on the tax take as a percentage of GDP for Latin America. In Central America, Costa Rica continues to top the list, with the tax-to-GDP ratio reaching 21.0% in 2012. Second is Nicaragua (19.5%), followed by Panama (18.5%); Honduras (17.5%); El Salvador (15.7%); and Guatemala (12.3%).

GUATEMALA | Record visits. On 28 January the head of Guatemala's national tourism institute (Inguat), Pedro Duchez, revealed that 2.1m foreign nationals visited the Central American country in 2013, 2.5% more than in the previous year and a new record. In fact Duchez said that this was the first time in its history that Guatemala received over 2m tourists. Significantly, Duchez pointed out that Inguat's figures show that the number of tourists visiting Guatemala has shown an upwards trend for the past three years. He said that this trend should continue this year when he expects the figure to increase by 3%-4% on the back of the government's new US\$3.8m international tourism promotion campaign launched at the start of the year. Highlighting the growing importance of Guatemala's tourism industry in the domestic economy, Duchez also pointed out that the sector generated US\$1.4bn for the country in 2013, making tourism the third most important source of foreign currency for the country behind exports (US\$10bn) and remittances from abroad (US\$5bn).

DOMINICAN REPUBLIC | Surpassing fiscal deficit reduction target. The finance minister, Simón Lizardo Mézquita, revealed on 23 January that the government closed 2013 with a fiscal deficit of 2.77% of GDP, slightly lower than the 2.8% target set by the administration led by President Danilo Medina. The result is positive for the Medina government given that reducing the fiscal deficit was one of the main objectives set out by Medina when he assumed office in August 2012. In order to achieve this Medina adopted a series of tough economic measures, including a significant retrenchment in government spending and a major tax reform, all of which proved to be highly unpopular at the time. According to Lizardo, total government spending in 2013 was RD\$442.19bn (US\$10.283bn) while revenues totalled RD\$372.16bn (US\$8.65bn). He explained that the figures were achieved thanks to the government's ability to control spending given that public institutions suffered budget cuts of over RD\$19.1bn, reflecting the government's "strong will" to adhere to the austere budget set out by the government.

PANAMA | Trade tensions with Colombia rumble on. Last week Panama's trade & industry ministry (Mici) announced that the World Trade Organization (WTO) director general, Brazil's Roberto Azevêdo, had designated the members of an arbitration panel to hear a complaint Panama is making against Colombia.

The government of President Ricardo Martinelli filed the complaint back in June 2013 [WR-13-27] in relation to a March 2013 decree issued by Colombia's President Juan Manuel Santos that introduced a temporary (12-month) ad valorem duty of 10% and a specific duty of US\$5 per gross kilo on all imports of apparel and footwear from countries with which Colombia does not have a free trade agreement (FTA).

The decree, which triggered major complaints by the business lobby in Panama's Colón Free Trade Zone (FTZ), came despite the fact that at the time, the two countries were negotiating an FTA which was signed in September 2013, although the FTA still awaits ratification by both legislatures. (Panama's FTA with Colombia is essential to its efforts to enter the Pacific Alliance trade bloc, which comprises Colombia, Mexico, Peru and Chile, where prospective members are required to have FTAs in place with all existing members in order to join).

Further fuelling these bilateral tensions, however, on 20 January, the Santos government announced it would extend the March 2013 decree for a further two years. According to the latest (October 2013) figures from Panama's economy ministry (MEF), the Colón FTZ registered a 10.6% annualised fall in exports in the first half of 2013 - the first such drop in the last four years, although this mainly owes to the failure of Venezuelan companies to pay off debts (estimated at over US\$700m) to suppliers in the FTZ. While neither Venezuela nor Colombia is a significant destination for Panama's national exports (accounting for less than 1% of its exports on latest [January 2013] MEF data), both are key markets for re-exports.

Quotes of the week

“This is a historic day. On the eve of the celebration of Peru’s bicentenary of independence, the maritime border has been defined.”
Peru’s President Ollanta Humala.

“If we are capable of reconciliation with the [Farc] guerrillas, how could I not be capable of reconciliation with [former president Alvaro] Uribe.”
Colombia’s President Juan Manuel Santos.

“A cartoonist who recreated the breaking and entering into my house is the object of penal action: it’s like ordering García Lorca to rectify a poem; it’s something that wouldn’t even have entered Stalin’s head [... Correa] is a mixture of Keynes and Stalin.”
Ecuadorean journalist Fernando Villavicencio on Xavier ‘Bonil’ Bonilla, who portrayed the raid on the former’s house as a Christmas present to Correa - police seizing evidence of government corruption.

Ecuador’s Correa holds forth on double standards

Ecuador’s President Rafael Correa admitted to “tensions” and “mutual distrust” with the US during a foreign press conference last week, claiming that there were right-wing groups there who “if they had their way would bomb us”. Correa said the US had responded with “the same arrogance as always” when his government had sought an explanation for an article published in *The Washington Post* on 21 December outlining the involvement of the Central Intelligence Agency (CIA) in the Colombian military’s bombing of a Fuerzas Armadas Revolucionarias de Colombia (Farc) camp on Ecuadorean soil in 2008 [WR-14-01]. He insisted he was not anti-American but would “always denounce double standards” – in others at least.

President Correa described the cross-border bombing raid in 2008 as “an attack on international law”. When seeking clarification about the claims relating to the CIA in the *Post*, Correa said his government had been informed that the US did not provide information on intelligence. Correa, who admitted relations were at a nadir (the US Agency for International Development [USAID] announced last month it would end cooperation with Ecuador [WR-13-50]), added that he would “investigate” the presence of 50 US servicemen in the US embassy in Quito.

While he is quick to ascribe “feet of clay” to others, Correa does not take kindly to the exposure of his own “double standards”, dismissing evidence of the criminalisation of social protest and an unremitting offensive against government critics as media misrepresentation. On 27 December police seized computers and documents after a dawn raid on the office of Cléver Jiménez, a deputy for the Pachakutik indigenous movement, and the home of Fernando Villavicencio, a journalist who has sought to shed light on Ecuador’s opaque relationship with China (publishing a book ‘Ecuador Made in China’) and writes on government corruption. Hours later Correa said there was evidence they had hacked into the emails of top government officials. They will be charged with “divulging documents illegally intercepted”.

On 14 January, Martha Roldós, a former deputy and government critic, maintained that information in a piece run by State daily *El Telégrafo* eight days earlier could only have been obtained by hacking her emails. It claimed she had sought funds in the US for an online media outlet from the National Endowment for Democracy (NED), whose checkered past received extensive coverage in the piece.



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 Carlos Ramirez Fuentes, President, **CONSAR**
 Carlos Noriega, President, **AMAFORE**
 Oscar Martin Rodriguez, CIO, Integracion **AFAP**
 Jorge Quijano, President, **Panama Canal**
 Vicente Tuesta, CIO, **Profuturo**

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 Jennifer Keljik at 312.540.3000 ext. 6592 or email j.keljik@marcusevans.com



LATIN AMERICAN WEEKLY REPORT is published weekly (50 issues a year) by **Latin American Newsletters**, 61 Old Street, London EC1V 9HW, England. Telephone +44 (0)20 7251 0012, Fax +44 (0)20 7253 8193
 Email: subs@latinnews.com or visit our website at: <http://www.latinnews.com>
EDITOR: JON FARMER. Subscription rates will be sent on request. Overseas subscription sent by airmail. Printed by Quorum Print Services Limited, Unit 3, Lansdown Industrial Estate, Gloucester Road, Cheltenham, Glos. GL51 8PL
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