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Mexico's Peña Nieto rocked by Michoacán mayhem

Despite his level best effort to divert the focus away from insecurity in Mexico since taking office in December 2012, President Enrique Peña Nieto was compelled to take urgent action this week when the conflict-torn south-western state of Michoacán was thrust into the global media spotlight. The interior minister, Miguel Ángel Osorio Chong, announced that federal forces would take charge of security in the inflamed area of Tierra Caliente in Michoacán after meeting Governor Fausto Vallejo in the state capital, Morelia, on 13 January. The catalyst for the deployment of hundreds of soldiers and 2,000 members of the federal police (PF) was the imminent risk of a blood bath in Apatzingán, a city of 90,000. 'Self-defence groups' had taken control of much of the surrounding area in the previous week, and announced that they would drive the drug trafficking organisation (DTO) Los Caballeros Templarios (LCT) out of the city.

President Peña Nieto received a phone call from his US peer Barack Obama on 13 January to congratulate him for the reforms approved during his first year in office and to confirm that he will travel to Toluca in the Estado de México on 19 February for the summit of North American leaders, two years after the last trilateral meeting in Washington. It was a welcome boost for Peña Nieto, who has striven to change the image of Mexico presented to the world under his predecessor, Felipe Calderón (2006-2012), who incessantly talked about insecurity: at a meeting of ambassadors at the start of January, Peña Nieto's foreign minister, José Antonio Meade Kuribreña, said that 2013 had allowed "Mexico's position in the world to be re-evaluated, as a country that changes and transforms, where the future can be viewed with optimism".

If Calderón was obsessive about insecurity, the pendulum may have swung too far the other way under Peña Nieto, whose detractors argue that his silence is tantamount to deceiving people about the current security situation. While the number of murders attributed to organised crime fell by some 15% year-on-year to 8,296 in 2013, according to the '*Ejecutómetro*' produced by the national daily *Reforma*, violence remains the same in most areas of the country. In 2013 there were 990 such murders in Michoacán, the highest figure since 1998. Two days after Obama's upbeat message, the US State Department described the conflict in Michoacán as "incredibly worrisome".

Peña Nieto was forced to take action after Governor Vallejo tacitly conceded that Michoacán was a failed state on 10 January by appealing to the federal government for help to control the proliferating armed self-defence groups. That day the media had shown images commonly associated with a civil war - heavily armed civilians, burnt out vehicles, and roadblocks - as self-defence groups rolled back the LCT in Tierra Caliente. At the weekend they seized control of Nueva Italia, an LCT stronghold, en route to Apatzingán.

**José Manuel
Mireles**

José Manuel Mireles was admitted to hospital in Mexico City after sustaining injuries during an airplane accident. The federal government came in for criticism for assigning dozens of police officers and soldiers to guard the senior vigilante leader. Interior Minister Osorio Chong even indicated that the federal government was prepared to pay Mireles' medical bills.

Osorio Chong was promptly dispatched to Morelia, where state and federal authorities signed a multifaceted security plan. Osorio Chong said federal support in the form of a M\$250m (US\$18.7m) 'crime prevention programme' would help to contain the violence in Michoacán. He added that federal forces would be deployed to every affected municipality in the state, and that an anti-kidnapping unit and a state institute for training police and investigators in citizen protection would be set up. Vallejo confidently asserted that this marked the beginning of the end for criminal groups in Michoacán.

The trouble is there have been myriad plans to confront insecurity in Michoacán in recent years. Calderón promised to resolve the trouble in his home state in 2006; Peña Nieto even deployed the army, marines and PF to the beleaguered state last May, a few months after the self-defence groups shot to prominence, to contain the violence, and again last November to secure control of the port city of Lázaro Cárdenas. It is therefore a moot point whether augmenting this federal force will make a big difference. The self-defence groups have had greater success against the LCT than the security forces, who they argue have been ineffective. This had prompted the federal government to let the vigilantes get on with it, despite allegations that they had been infiltrated by the LCT's rival DTO, Jalisco Nueva Generación. The federal government also faced charges of abnegating its responsibility by allowing citizen militias to carry arms.

Osorio Chong sought to redress the federal government's mixed message on self-defence groups after the meeting in Morelia. He said that there would be "no tolerance whatsoever" for anyone found carrying arms without legal authorisation in Michoacán. He invited the self-defence groups to join the police forces. The vigilantes have displaced the municipal police in 17 municipalities in Michoacán, most recently in Parácuaro on 11 January, arguing that they collude with drug-traffickers.

There are clear signs, however, that the self-defence groups, which converged on Apatzingán after securing control of five of six municipalities surrounding it last week, are not about to heed Osorio Chong's warning. José Manuel Mireles, a senior leader of the self-defence groups convalescing in a Mexico City hospital under police protection after a plane crash on 4 January (*see sidebar*), appeared to accept the federal government's call to disarm in a video sent to a television news outlet. "All we want", he said, "is for the rule of law to be restored [...] not a civil revolution that cannot be stopped". Mireles contradicted this message though, in another video posted to *YouTube*, by saying the self-defence groups would not lay down their arms until the seven senior LCT leaders were arrested.

Estanislao Beltrán, another senior leader of the self-defence groups, echoed the second message. Beltrán said that the vigilantes were keen to work with the federal forces to continue their fight but that the objective remained to clear the LCT out of Michoacán's 113 municipalities. He said that he and his colleagues would not down arms as the LCT would then come for their families. This flagrant defiance of federal authority poses a real challenge to Peña Nieto. When the armed forces started disarming vigilantes in the town of Antúnez this week, they were blocked by groups of civilians. Beltrán claimed that at least seven civilians were killed in the resulting fracas. The federal attorney general, Jesús Murillo Karam, confirmed that there had been a clash but did not speculate about fatalities, saying merely that the government was trying to re-establish law and order with the least possible violence. Families of two of the dead said they did not belong to self-defence groups but supported them economically. The defence ministry confirmed that two people had been killed in Nueva Italia.

Governor Vallejo, who announced in a show of resolve on 13 January that his government would relocate to Apatzingán, held a meeting with Beltrán and Hipólito Mora, another leader of the self-defence groups, in the city to try and reduce tension after these clashes. The armed forces also disarmed

Letta visits Mexico

On 13 January Italy's prime minister, Enrico Letta, began his first official visit to Mexico. After meeting President Peña Nieto and signing a series of cooperation agreements, Letta said that his government would push for the European Union (EU) to update the Economic Cooperation Agreement it signed with Mexico in 1997 so as to strengthen trade ties between the two parties. Pointing out that Mexico "is going to be one of the world's leading economies in the near future", Letta said that "we must update the trade agreement... Italy will be Mexico's best ambassador before the EU". Italy, Mexico's third largest European trade partner with US\$6bn of annual bilateral trade, is scheduled to take over the EU's pro tempore presidency in July.

dozens of municipal police in Apatzingán accused of colluding with the LCT. In another gesture, on 15 January, the federal police announced the capture of Joaquín 'El Allegretti' Negrete Arriaga and Jorge Fabián Quesada Andrade, two supposed LCT leaders. The vigilante leaders were singularly unimpressed, arguing that neither man had much clout in the DTO.

In a signal of intent on the same day Osorio Chong announced that Peña Nieto had named a special security commissioner for Michoacán, Alfredo Castillo, who served as attorney general in the Estado de México when Peña Nieto was governor. Castillo, who leaves his position as head of the federal consumer protection agency (Profeco), will serve as the coordinating link between the federal forces operating in Michoacán and the local authorities. He said his new role presented "a great challenge and opportunity".

TRACKING TRENDS

MEXICO | Financial reform. On 9 January President Enrique Peña Nieto promulgated the financial reform package approved by congress in September last year [WR-13-36]. The reform, part of Peña Nieto's ambitious economic reform agenda, is aimed at increasing the level of credit available in the local market. In promoting the reform, the Peña Nieto administration pointed out that despite the fact that Mexico's banking sector is one of the most solid in the world, boasting high levels of capitalisation, reserves and liquidity, the level of credit offered to the general population was comparatively low: the level of credit available to the private sector in Mexico amounts to 27% of GDP, lower than the regional average of 47% of GDP. Thus the government proposed a series of changes to the existing legislation governing the banking sector aimed at encouraging banks to provide more and cheaper credit. These changes include the provision of greater guarantees to lenders against the risk of non-payment by borrowers; increasing competition in the sector; and improving its regulation.

The reform also seeks to strengthen Mexico's national development banks by giving them a better defined purpose: the government's aim is that its development banks will now primarily focus on promoting the country's infrastructure development and provide financial support to small and medium sized enterprises (SMEs).

The promulgation of the reform took place at an event at the Los Pinos presidential residence in which Peña Nieto gave a small speech. He said that the government expected that the reform would help to increase the level of credit availability by 15% in order to "accelerate the construction of public works, boost agricultural production and exports and provide financial backing to Mexican firms and entrepreneurs".

The reform was hailed by Agustín Carstens, the president of Mexico's central bank (Banxico), who attended the event. Carstens said that the changes could provide the foundation for the financial sector to grow much faster to the overall benefit of the domestic economy. "Our projection, based on the experience of a large number of other countries in the last 50 years, is that as the level of financial penetration increases in Mexico from the current 26% to around 52%, this could help boost annual GDP growth rates by as much as 0.05% each year".

MEXICO | Positive 2014 outlook. On 9 January the secretary general of the Organisation for Economic Co-operation and Development (OECD), Mexico's José Angel Gurría, said that he expected that the Mexican economy would post growth of 3.8% this year. Given that Mexico's official (still unconfirmed) year-end growth forecast for 2013 is of just 1.7% (private estimates are even lower at 1.0%-1.2%), Gurría's forecast will be well received by the Mexican government.

In fact, this forecast is not too dissimilar from the one offered by Mexico's finance minister, Luis Videgaray, who a day earlier predicted that Mexico's GDP would grow by 3.9% in 2014. Gurría said that he expected the Mexican economy to register even higher growth of 4.2%-4.3% in 2015 as the economic reforms introduced by the Peña Nieto government last year begin to take effect. "The fact is that good things are happening in Mexico", Gurría said, adding that this should attract investment to the country.

Other changes

The ministers for university education, basic education, youth, sports, labour & social security, industries and the secretary of the presidency were renewed last week. President Maduro said the changes were “necessary” and framed them as part of the efforts to promote social harmony. Ratified in their posts were Interior Minister Torres, Communications Minister Delcy Rodríguez, Women & Gender Affairs Minister Andreína Tarazona, Defence Minister Carmen Meléndez and Culture Minister Fidel Barbarito. Notably, Maduro also replaced the heads of the national intelligence agency (Sebin), the military intelligence directorate (DIM) and the Casa Militar, with Gen. Gregorio Bernal Martínez, Gen. Hernández Salas and Col. Miguel Salazar respectively.

ANDEAN COUNTRIES

VENEZUELA | POLITICS & ECONOMY

Maduro – I’m on top of it

In his first state-of-the-nation address to the national assembly on 15 January President Nicolás Maduro threw his full weight behind the socialist transition, declaring, “I know where I stand...I know what I am doing”.

The late president Hugo Chávez (1999-2013), supposedly cancer-free, spoke for over nine hours in the same spot in 2012; this time last year, he had already departed Venezuela (to a Cuban hospital) for the last time. Standing before a giant image of ‘El Comandante’, Maduro in his inaugural 4.5-hour address focused on security and the economy. Propelled by the public uproar over the recent double homicide of a well-known local actress and her former partner, Maduro said that while construction of a socialist economy would be the principal task of the Revolution in the coming five years, the main task for this year is “to build a new model of peace”.

To that end, Vice-President Jorge Arreaza and Interior & Justice Minister (Major General) Miguel Rodríguez Torres are putting together a new ‘Pacification Plan’ to reduce criminality. While opposition mayors and state governors have been invited to contribute to these efforts [WR-14-01], Maduro in his address kept up his aggressive rhetoric against the opposition and the private business sector. Accusing its opponents of waging ‘war’ against the country gives the Maduro government cover while it attempts to restore order to the beleaguered economy.

Main economic measures

The expected currency devaluation did not materialise. Maduro said the current official rate of BF6.3/US\$1 would be retained for this year and beyond. The reality is that a stealth devaluation is already underway in the secondary exchange rate (FX) agency, Sistema Complementario de Divisas (Sicad), where increasingly more private sector imports now come in at about BF11/US\$1 (the central bank does not publish the rate). The preferential rate is now effectively reserved for government purchases of priority goods like medicines and essential foods. The main FX agency, Comisión de Administración de Divisas (Cadivi), will be abolished, with the new national centre for foreign trade, led by Commerce Minister Alejandro Fleming, henceforth managing these essential imports.

The central bank offers about US\$100m in its weekly auctions. It is clearly not enough. Imports averaged US\$4.8bn a month in the first three quarters of 2013; international reserves were US\$20.8bn on 14 January, down US\$8bn on a year ago. According to websites that publish the (illegal) parallel rate, it was trading at BF74.11/US\$1 on 16 January, almost 12 times the official rate. Meanwhile, the broad M2 measure of monetary liquidity is now BF1.2bn (US\$190m), which goes a long way towards explaining the 2013 year-end inflation rate of 56.3%, over triple the 2012 rate of 20.1%.

Nelson Merentes returns to the central bank less than a year after he was moved to the finance ministry, his early efforts to promote currency reform and dialogue with the private sector reportedly slapped down by the orthodox Marxist planning minister (and his predecessor in the finance ministry), Jorge Giordani. The architect of the official price and exchange rate controls in place for the past decade, Giordani was singled out for special mention by Maduro. Replacing Merentes is General Rodolfo Marco Torres, the public banks’ minister. Torres will oversee a new ‘superministry’ of finance & public banks.

Marco, a confidant of Chávez, formerly served as executive secretary of the (off budget) national development fund (Fonden) and as national treasurer. He administered Banco de Venezuela after its takeover in 2008 from Spain’s Santander, becoming public banks’ minister in 2011. He is said to have pragmatic relations with the local financial sector. Maduro said Torres would put in place “a new financial model that can allow for all these investments we need, that will allow the expansion of a financial system at the service of the country”.

Petro dismissal takes new twist

Julián Conrado'

'Julián Conrado' was a senior leader in the Farc's Bloque Sur before his capture. His arrival in Havana prompted speculation that the Bloque Sur, which has the second largest number of combatants of all the Farc 'blocs' and the biggest involvement in drug-trafficking, would finally have representation at the negotiating table. Its lack of presence in Havana has raised doubts about its commitment to peace, and fractures within the Farc. The Farc, which has denied any internal differences, announced that Conrado would not join the negotiating team yet because of his frail health.

The fate of the leftist mayor of Bogotá, Gustavo Petro, is in the balance. Petro appealed to tens of thousands of supporters who gathered outside city hall on 10 January to stage "the largest protest in Bogotá's history on the day the prosecutor general ratifies his arbitrary decision". This "arbitrary decision" was Petro's dismissal on 9 December for mismanaging the capital's refuse collection. It was promptly ratified on 13 January after the prosecutor general's office rejected an appeal by Petro. The very next day, however, a local judge temporarily suspended the ruling. Petro and the Fuerzas Armadas Revolucionarias de Colombia (Farc) maintain that his dismissal threatens the peace process. They have called on President Juan Manuel Santos to override the decision to show that demobilised guerrillas like Petro can compete on a level playing field.

Petro urged his supporters not just to stage permanent demonstrations on the streets to defend democracy but also to promote a constituent assembly to reform the Colombian State. This puts Petro on the same page as the Farc which insists that a constituent assembly is a *sine qua non* for a successful conclusion of the peace process. Petro, however, is primarily motivated by the determination to reform what he (and no shortage of others in political circles) sees as the constitutional anomaly which allows the prosecutor general, an appointed official, to dismiss an elected official in defiance of the popular will without trial.

The decision to dismiss Petro looks disproportionate (he was also barred from holding public office for 15 years) but it was not a "coup d'état" as he claims. The current constitution does not circumscribe the prosecutor general's powers when it comes to taking action against elected officials: in 2013 alone the prosecutor general, Alejandro Ordóñez, sanctioned 152 mayors and former mayors; 87 councillors; and 10 governors and former governors. A judge on the administrative court of the department of Cundinamarca challenged the constitutionality of the ruling, however, on 14 January by ordering its suspension for 10 days while the court considers an appeal brought by a retired police officer. It argues that the ruling violates Petro's political rights and the rights of Bogotá voters.

Petro said the court had shown that "justice and the masses together can stop tyranny". It has only bought him 10 more days but this puts back until mid February the date by which Santos would be constitutionally bound to issue a decree dismissing him. In the meantime, Petro will be hoping his appeal to the Inter-American Human Rights Commission (IACHR) prospers, although Ordóñez insists any ruling by the IACHR would not be binding as it is "a complementary not an alternative system of justice". Other lawyers are also calling for the sanction to be suspended until the attorney general's office has finished its current investigation into the prosecutor general's decision. All this could delay the dismissal until after a recall referendum on Petro is scheduled to be held on 2 March. This would be the preferred outcome for Santos, who is keen to stay out of the matter, which is distracting from his re-election campaign and being used by the Farc to question the government's commitment to enacting the political participation accord struck in the peace talks.

Talks recommenced in Cuba on 13 January after the Christmas recess. This coincided with the arrival in Havana of 'Julián Conrado' (Guillermo Enrique Torres Cueter) the Farc's 'singer' (see sidebar). Conrado was released by the Venezuelan supreme court (TSJ) on 9 January; he had been picked up in May 2011 by Venezuelan authorities in response to an Interpol request for his capture. The Venezuelans subsequently stalled in response to a Colombian request for his extradition. The Colombian authorities dropped this request on 26 December.

Chinese cooperation continues to take off

Last month's launch of the Chinese-made satellite Túpac Katari is just the latest sign of burgeoning ties between the Movimiento al Socialismo (MAS) government of President Evo Morales and Beijing. It took place during Morales' third visit to China since taking office in 2006.

Constructed by the China Great Wall Industry Corporation (CGWIC) with a total US\$302m, (of which 15% came from Bolivia and the rest from the Chinese development bank), the satellite was launched on 20 December and officially enters service from March 2014. The satellite has been hailed by the Morales administration as key to improving information and communication technologies (ICT) in the country. The latest (October 2013) report by the International Telecommunication Union (ITU) showed Bolivia has the fifth worst ICT development index in Latin America and the Caribbean (although some countries like Guatemala and Haiti were not included).

Public works minister Vladimir Sánchez told reporters that the satellite, which has a 15-year anticipated lifespan, will play a vital role in improving education; health; lowering telephone, cable TV and internet costs; and improving the inclusion of millions of Bolivians in rural areas. Justice Freddy Sanabria, a member of the judicial oversight body, also told reporters that the satellite will play a key role in connecting Bolivia's 876 justices and digitalising judicial resources as part of efforts to improve the efficiency of the justice system - a major priority of the Morales government. Meanwhile Bolivia's new police chief, Walter Villarparando, highlighted the importance of the new satellite for security - another government priority - in terms of assisting in crime prevention and coca eradication efforts.

The launch of the satellite comes amid other signs of strengthening cooperation with China, to which Bolivia appears increasingly to be turning in the face of Venezuela's economic woes [WR-13-24]. On 2 January, President Morales inaugurated Bolivia's first ever wind farm, constructed by China's Hydrochina, in Qollpana, Cochabamba, at a cost of US\$7.6m. The first stage of the project will contribute 2MW to the national energy grid while the second will contribute 40MW. It is part of Morales' efforts to end Bolivia's current dependence on geothermal plants, which accounted for 65% of the electricity generated last year (with 35% coming from hydroelectric sources).

The next day Morales inaugurated operations of the national paper-making company, Empresa Pública Estratégica Papeles de Bolivia (Papellbol), whose facilities were constructed by China's Shenzhen Vicstar with an investment of some US\$27m. Meanwhile, on 13 January, the national daily, *La Razón*, published an interview with the minister for the presidency, Juan Ramón Quintana, in which he described China as a "strategic ally" in the government's so-called "Patriotic Agenda", which includes 13 national development goals until August 2025 (*see sidebar*).

China trade

Bolivia's national chamber of commerce announced on 12 December that it was opening a trade office in Shanghai. Bilateral trade reached US\$1.4bn in the first 11 months of 2013 (out of Bolivia's total trade of US\$19.4bn), according to the most recent figures from Bolivia's national statistics institute (INE). This was up from US\$1.2bn over the same period in 2012. Chinese exports accounted for US\$1.1bn while Bolivian exports (worth US\$289m) registered a slight (1.2%) decline on the previous year. China is Bolivia's fourth biggest single trading partner after Brazil (US\$5.1bn); Argentina (US\$3.1bn) and the US (US\$2.2bn), while Venezuela accounted for just US\$138m.

Chinese projects

In the 13 January interview with *La Razón*, the minister for the presidency, Juan Ramón Quintana, said that some 10 Chinese companies are carrying out six major projects in Bolivia related to energy, production, road infrastructure and telecommunications. These include a US\$250m project to construct the Montero-Bulo Bulo railway; a US\$77.4m plan to construct the Trinidad-San Ignacio de Moxos highway; and a US\$2.9m plant to construct lithium batteries.

Peru Panettone exports fall

Peruvian exports of Panettone, a type of Italian sweet bread traditionally eaten during Christmas, amounted to US\$3.71m during the January–November 2013 period, 22% less than in the comparable period in 2012, Peru's national statistics institute (Inei) revealed on 9 January. With the export figures for December 2013 yet to be made available, Inei said that it was unlikely that the full-year figures would be able to match the 2012 export level of US\$4.9m. Despite this Inei highlighted that overall Peru's Panettone exports have been on the rise since 2007 when 696 tonnes (t) of the product were exported, compared to the 1,294t exported in 2012, a sizeable 78.7% increase. According to Inei, the main export markets for Peruvian Panettone are the US, Bolivia, Chile, Venezuela and Japan.

TRACKING TRENDS

COLOMBIA | Coal exports halted. On 8 January the Colombian government ordered the US-owned Drummond mining company to halt all coal-loading operations at its port in Ciénaga, located in the Bay of Santa Marta in the Caribbean department of Magdalena, after officials corroborated that the firm was not adhering to new environmental provisions affecting coal shipments that came into full effect at the start of the year.

Drummond is the second largest coal producer in Colombia, extracting between 80,000 and 90,000 tonnes (t) of coal a day, and so the decision by the government led by President Juan Manuel Santos effectively shut down the country's coal export market. In fact news of the suspension of Drummond shipments triggered an immediate 3.2% increase in European coal prices given that Colombia is the second largest supplier of coal to the European Union. The decision will have negative consequences for the Colombian economy. Drummond's operations translate into Col\$2.47bn (US\$1.27m) in tax revenues for the State a day; but the government has said that it was forced to take action because its commitment to preserving the national environment is solid.

Concerns over the way in which coal export shipments are handled in Colombia became a national issue in 2011 after it was denounced that the use of open air barges to ferry coal from mines located inland down the Magdalena River to Caribbean ports was producing irreparable damage to the River and Caribbean Sea ecosystems as the barges allowed large amounts of coal dust to escape into the environment. In response the government introduced new legislation banning the use of open-air barges and establishing 1 January 2014 as the deadline for all coal mining firms to adopt alternative and more environmentally friendly 'direct-loading mechanisms'.

Although Drummond complained that it needed more time to comply with the regulations and asked the Santos government for this deadline to be extended, following the January 2013 incident in which three Drummond barges containing 500t of coal sank near the port of Ciénaga— one of the biggest environmental accidents in Colombia in years for which Drummond was fined US\$3.6m by the environment ministry - the government decided to adopt a tough stance warning Drummond that it expected full compliance with the new regulation by the set deadline. Consequently after conducting an in situ inspection of the Ciénaga port, Environment Minister Luz Helena Sarmiento announced the total ban on coal shipments from the port stating that: "We know that this is a very costly decision for the country, but what is at stake here, apart from environmental and social issues, is the institutional credibility of the Colombian authorities. The law is for everyone and our obligation as a government is to enforce it".

It is not yet clear how long it will take Drummond to overhaul its coal transport operations; the firm previously called for the deadline to be extended to February or March. In the meantime, losses will mount for both Drummond and Colombia, the world's fourth largest coal exporter, which shipped 85m t of the mineral valued at US\$6bn last year.

PERU-ECUADOR | Adex warns of Ecuadorean restrictions. Peru's exporters' association (Adex) warned on 12 January that recent measures adopted by the Ecuadorean government were affecting Peruvian agricultural, manufacturing and fish exports destined for its northern neighbour. According to Adex, as result of Ecuador's national normalisation institute (Inein)'s 2 December 2013 decision to demand export certificates for a list of 120 products, including foods, agro-industrial products, meats, textiles and electrical equipment, a number of Peruvian export shipments are being turned away at the border.

In announcing its decision to demand export certificates Inein said this answered to the efforts of the government of President Rafael Correa "to substitute imports gradually and promote the national industry". However, Adex president, Eduardo Amorrortu, said that Ecuadorean businessmen themselves have also expressed concerns that the measure is negatively affecting them, with many finding themselves unable to source raw materials and equipment from abroad. "With these changes Peruvian exporters are finding it tough to export to Ecuador, while Ecuadorean businesses are having trouble sourcing products necessary for production, creating problems and unexpected costs on both sides of the border," Amorrortu said. Amorrortu then revealed that Adex has already alerted Peru's foreign trade & tourism ministry (Mincetur), as well as the foreign ministry, about the situation in the hope that the government addresses the issue with its Ecuadorean counterpart.

Trade between Andean Community (CAN) members Peru and Ecuador has been free since 2005 and since then it has steadily increased to reach US\$3.1bn in 2012, the last year for which full figures are available.

Unhappy with Dilma, PMDB reaches out to Lula

Either the rumours swirling about the imminent cabinet reshuffle are proving disagreeable to the leadership of the Partido do Movimento Democrático Brasileiro (PMDB), or the party is trying to flex its muscles in an attempt to influence the thinking of President Dilma Rousseff. On 15 January, the vice-president, Michel Temer, met former president Lula da Silva (2003-2010), who is in charge of Rousseff's re-election campaign, to discuss positions in the new-look cabinet. The reshuffle is expected to be complete by Carnival, at the beginning of March.

The latest crisis in relations was triggered by Rousseff telling Temer that she would not be handing the cities' ministry to the PMDB. She also told him that she would not be able to replace Ciro Gomes, ex-PMDB now Partido Republicano da Ordem Social (PROS), at the national integration ministry because she needed the support of Ciro and his brother Cid, governor of the north-eastern state of Ceará, in the presidential race. One of her main competitors, Eduardo Campos, Partido Socialista Brasileiro (PSB), is from the north-eastern state of Pernambuco.

The national integration ministry is one of the most coveted ministerial portfolios, as five other ministries (mines and energy, security, agriculture, civil aviation and tourism) are under its command. Temer believes it should go to PMDB senator Vital do Rêgo, from Paraíba. Rousseff told Temer that she needs to maintain alliances with other parties, such as the PROS, the Partido Trabalhista Brasileiro and the Partido Social Democrático of the ex-mayor of São Paulo, Gilberto Kassab. "It's very tense and we are going to try to maintain party unity," Henrique Eduardo Alves, the PMDB president of the lower house, said.

São Paulo tries to clear its cracolândia, again

On 15 January the mayor's office in São Paulo began the process of clearing the streets of Bom Retiro of the plywood and tarpaulin shacks that make up the city's main community of crack cocaine addicts. In its latest attempt to tackle the problem, last week the mayoralty announced plans to offer residents of the cracolândia lodging, food and skills training, as well as a stipend of R\$15 (US\$6.3), per day in return for their voluntary submission to an addiction treatment programme. Around 300 addicts have reportedly signed up. The cost per person to the mayor's office is R\$1,017 (US\$432).

Brazil has the world's largest number of crack addicts, estimated at between 1 to 1.2m. Cracolândias are a feature of almost every major city. São Paulo's plan is the latest in a series of attempts to rid the city of its crack ghetto. Two years ago, the city tried a hardline policy known as 'Dor e Sufrimento' ('Pain and Suffering'), using police officers to arrest addicts and remove their shacks. When this resulted in the displacement and multiplication of the problem, the policy was abandoned in favour of a more public-health orientated approach allowing addicts to consume openly. Small-scale drug dealing is also tolerated in the area.

In recent months the number of beds available to addicts has been increased; Cratod, the nearby addiction clinic, was opened 24 hours a day, and there has been an improvement in co-ordination between state and municipal health authorities to monitor the city's population of crack users. The slum persisted however, and following complaints from local residents, the authorities have decided to remove the addicts' temporary housing.

Dr Ronaldo Laranjeira, a professor of psychiatry at the Federal University of São Paulo, and one of Brazil's leading experts in addiction, was sceptical the latest plan would work for long. "The city authorities were the ones who encouraged the building of the shacks in the first place to take the problem off the streets. Now the shacks will go up in other parts of the city, and the crack addicts will be back on the streets," he said.

Fifa bigwigs stay away

Fearing a repeat of the protests that accompanied the Confederations Cup in June last year, many senior Fifa officials have said they will not attend this year's World Cup. Fifa president Sepp Blatter, and the secretary-general, Jerome Valcke, will attend, but others told the *Estadão* newspaper they would leave after the opening ceremony. "The protests are a big threat," said one, quoted anonymously.

Central bank raises interest rates to 10.5%

For the seventh consecutive time, the central bank's monetary policy committee (Copom) decided to raise interest rates on 15 January, taking the benchmark Selic up to 10.5% from 10%. The unanimous decision means that the Selic is the highest it's been since January 2012. According to the central bank president, Alexandre Tombini, inflation is "slightly above" target. "The persistence of inflation is due, in large part, to the devaluation in the currency over the past few weeks, costs from the labour market and recent pressure from the transport sector," he said.

Inflation

For 2013 and 2014, the government has kept its inflation target at 4.5% +/- 2.0%, but for the past year inflation has been hovering around the top end of the threshold. On 12 January the December inflation data was released: at 0.92% it was the highest monthly rise for ten years. A weekly inflation survey by the Fundação Getulio Vargas (FGV)'s Instituto Brasileiro de Economia (Ibre) on consumer prices in São Paulo found significant rises in the costs of petrol, higher education, drinks in bars and restaurants, residential rents and primary education.

The half a percentage point rise was more than the 0.25% expected by a majority of economists. Most expect the trend to increase rates to continue, and for the Real to continue its slide against the US dollar, following the uncertainty generated by the gradual phase-out of quantitative easing by the US Federal Reserve. According to a survey by MoneYou, Brazil now has the highest real interest rates (inflation-adjusted) among the world's 40 largest economies.

Having presided over a period of record-low interest rates, President Dilma Rousseff is in danger of allowing the 6.5% maximum threshold to be breached this year. Though government subsidies for fuel, energy and public transport have helped to keep inflation within target, there is little room for manoeuvre in this, an election year. Rousseff remains the overwhelming favourite in the presidential election in October, but opposition politicians are starting to enjoy her discomfort. Alvaro Dias of the Partido da Social Democracia Brasileira, the deputy speaker of the senate, described inflation as "what elects or defeats governments".

'Rolezinhos': Protest, party or menace?

It's the latest phenomenon sweeping the shopping malls of São Paulo and Rio de Janeiro: the 'rolezinho'. Akin to a flash mob, these are impromptu gatherings, organised via social media, of thousands of young, predominantly working class, black Brazilians in some of the cities' most upmarket shopping malls. Ostensibly these events are more party than protest, providing young people and opportunity to flirt and have fun in the kind of public spaces in which they are not normally welcome.

However, amid rumours of robbery, mall administrators have increasingly resorted to calling on the police to bring an end to these puzzling events. Before Christmas, heavy-handed police tactics, including the arrest of teenagers on the mere suspicion of intent to commit acts of public disorder, resulted in the increased politicisation of these events. Átila Roque, the head of Amnesty International in Brazil, said the actions of police and mall administrators were discriminatory and racist. Sympathetic sociologists have argued that the rolezinhos are an attempt by a marginalised section of Brazilian society to participate in the middle-class consumerism that has boomed in the country in recent years. Conservative commentators have called for a tougher police response. Rodrigo Constantino, writing in *Veja*, called the participants "barbarians incapable of recognizing their own inferiority, who are deathly jealous of civilization".

On 15 January President Dilma Rousseff held a meeting on the subject with her ministers. The mayor of São Paulo, Fernando Haddad (of the ruling Partido dos Trabalhadores), has tasked his secretary for racial equality with talking to the leaders of the rolezinhos. Further mall occupations are planned for this weekend.

Police suspected in massacre

A revenge attack by military police is currently investigators' "strongest theory" in the murder of 12 people during a series of drive-by shootings in a suburb of Campinas on the night of 12 January. A 44-year old military police officer had been killed a few hours earlier in the area as he tried to stop thieves from stealing a car.

Buenos Aires**teachers' salaries**

The labour minister for the province of Buenos Aires, Oscar Cuartango, announced on 13 January that the government would begin talks with teachers' unions as early as the second fortnight of January. Collective wage negotiations, however, will not formally begin until February. The provincial government hopes to settle the issue of teachers' wages before the beginning of the 2014 school term in order to avoid strikes. The recent wage increases awarded to police forces around the country are likely to have an impact in other collective bargaining processes involving state workers.

Arguing over the price of a loaf of bread

Argentina's agricultural sector has been at odds with the government of President Cristina Fernández for almost her entire period of office. Since she raised export taxes on the sector in March 2008, conflict between the two has never been far away. Now, it threatens to flare up again, following the announcement by the economy minister, Axel Kicillof, that, despite hopes for a good wheat harvest in 2014, the government will allow only "gradual" exports.

Last year was a terrible year for wheat, with shortages due to a bad harvest forcing up the price of bread and shutting down exports. On 13 January Kicillof said he expects a good harvest of 9.2m tonnes this year. The latest US Department of Agriculture projection is that the country will have an output of 10.5m tonnes. This would be more than enough to cover the internal demand of 6m tonnes and allow for the export of 1.5m tonnes. However, despite the government's thirst for export dollars, Kicillof said that although 500,000 tonnes could be exported immediately, the remaining 1m tonnes must only be released gradually, in order to guarantee domestic supply.

Argentina's 'Mesa de Enlace', formed by the four leaders of the country's most important agricultural organisations, immediately criticised Kicillof's decision. Luis Miguel Etchevehere, president of the Sociedad Rural de Argentina (SRA) lamented the Casa Rosada's tendency "to keep on making mistakes" and promised protest action, beginning this weekend. Government supporters pointed out that the Mesa de Enlace was not a politically neutral body. Two days before Kicillof's announcement, the Mesa held a meeting with Sergio Massa, the dissident Peronist and current darling of the opposition, to discuss abolishing wheat export duties.

The cabinet chief, Jorge Capitanich, said the government's decision was motivated by a desire to administer a "common sense" policy to guarantee the supply of a vital good to all Argentines.

Dollar high

The price of a black-market, or 'blue', dollar rose to a record high on 15 January, breaching Arg\$11/US\$. Analysts said speculators were playing a role in driving up the price, but also pointed out that tourist spending during the holiday season was the main factor behind the rise. Christmas bonuses were also said to have been converted into dollars. The official dollar rate also rose, up to Arg\$6.7. Since Juan Carlos Fábrega took over at the central bank two months' ago, the peso has devalued by around 11%. The government has been attempting to narrow the gap between the official and unofficial rates through daily interventions in the currency market. However, the continued drop in the black market rate is undermining this strategy. International reserves have fallen 29% in the last 12 months to US\$30.4bn, the lowest since December 2006. One analyst quoted by Bloomberg described Argentina's currency intervention policy as "fragile."

US Supreme Court agrees to hear part of Argentina's case

On 10 January the US Supreme Court agreed to rule on whether the US Foreign Sovereign Immunities Act (FSIA) protects Argentina's property from being seized. A lower court ruling had allowed one of Argentina's hold-out bondholders to subpoena records of Argentine assets from the US offices of Bank of America and Banco de la Nación. The US Justice Department supports Argentina in this case, arguing that the FSIA protects foreign governments' property "unless the property is used for a commercial activity in the United States". Though the Supreme Court's decision represents a minor victory for Argentina, it has no bearing on the central issue of whether Argentina is legally obligated to pay its hold-out bondholders in full. Numerous US courts have said Argentina must; the South American country is expected to lodge an appeal against that ruling with the Supreme Court in February.

South serves up warning for Bachelet

Most of the media focus in Chile is on the political wheeling and dealing surrounding President-elect Michelle Bachelet's future cabinet and the myriad meetings to forge firm ties between her political team and deputies and senators in the Nueva Mayoría to drive her planned reform agenda through congress. Meanwhile, an issue which has received comparatively little media coverage, and still less attention in the policy discussions of Bachelet's incoming government, is the mounting unrest in Araucanía, the ancestral homeland of the Mapuche in southern Chile. This is surprising because in 2008 Bachelet's presidency (2006-2010) was rocked by Mapuche protests which took on the characteristics of an Intifada with marches, hunger strikes, fires and road blocks occurring daily.

On 9 January a court in Angol, the capital city of Malleco province in Araucanía, absolved a Mapuche leader ('werkén'), Daniel Melinao, from the murder of a carabinero sergeant, Hugo Albornoz, in April 2012. The interior minister, Andrés Chadwick, criticised the ruling absolving Melinao, claiming that there was more than enough evidence to convict Melinao (the prosecution was seeking a 30-year sentence) and that the government would appeal. Chadwick said similar rulings in recent years in Araucanía were creating "a sensation of impunity as convictions are not being obtained to punish people who eventually participate in extremism". Melinao denied he had fired the shots that killed Albornoz and maintained that the charges against him were part of a systematic attempt to implicate the Mapuche community falsely.

Chadwick stirred up further controversy on 4 January when he visited the children of a prominent farmer, Werner Luchsinger, and his wife, in Cautín, Araucanía on the first anniversary of their deaths in an arson attack, but refrained from meeting the family of Matías Catrileo, who was shot dead during a protest on 3 January 2008 by a carabinero lance corporal, Walter Ramírez. Chadwick argued that the difference was that Catrileo's family had obtained justice. Ramírez received a two-year suspended sentence; he was expelled from the force last year.

Chadwick also met the director general of the Carabineros in Araucanía, Gustavo González, who is supervising the investigations into a series of violent incidents in Araucanía. On 31 December Mapuche militants stormed the premises of a forestry company, Mininco, in Malleco province, lobbing Molotov cocktails at two firefighting helicopters, destroying one and damaging the other. Days earlier an explosive device was placed outside the local police court in Temuco, the regional capital, and a rural estate in the commune of Vilcún, was also attacked. The deputy interior minister, Rodrigo Ubilla, showed some of the pamphlets taken by the police, which were left at the estate and carried titles such as, "If there is no land, there will be war". The government of President Sebastián Piñera cited this as justification to invoke the controversial anti-terrorist law from the dictatorship era of General Augusto Pinochet (1973-1990) to punish those found responsible. This did not deter the attackers. On 6 January there was an arson attack on a 200-hectare estate in Pidima belonging to Juan de Dios Fuentes, whose son was fired upon while trying to put out the blaze.

President-elect Bachelet, who takes office on 11 March, has not undertaken to raise the Mapuche issue up her list of priorities in light of the recent unrest in Araucanía. If the attacks continue, and her government decides to apply the Pinochet-era anti-terrorist law in response, she will come under immediate pressure from human rights groups as she did during her first presidency to come up with more innovative methods to address the long-running Mapuche conflict.

Special prosecutor

On 2 January Interior Minister Andrés Chadwick announced the designation of a special prosecutor in Araucanía in the wake of 12 violent incidents in late December. Alberto Chiffelle, the prosecutor of Temuco, was appointed to the role by the prosecutor's office.

Chile's fruit exports continue to rise

On 14 January Chile's agriculture ministry revealed that the country's fruit exports had experienced significant increases in both value and volume terms in 2013. According to the ministry, the result is somewhat surprising given that producers faced adverse climatic conditions at the start of last year when Chile was affected by a prolonged drought. However, according to official figures, fruit exports last year totalled 2.7m tonnes, 5.4% more than in the previous year. These exports were in turn valued at US\$4.41bn, 5.4% higher than in 2012. Commenting on the positive result, Agriculture Minister Luis Mayol highlighted that it was achieved despite the fact that the producers also faced other adverse factors such as "a low exchange rate level and high energy costs".

ARGENTINA | Plummeting economic freedom. On 13 January the Heritage Foundation and the Wall Street Journal released the latest version of their annual Index of Economic Freedom, which placed Argentina 166th out of 178 countries, putting it in the lowest tier of the ranking for the first time. The Index report was scathing of Argentina's performance in its rankings, pointing out that its overall score dropped by 2.1 points to 44.6, meaning that it has now joined the 15 other nations, such as Cuba and North Korea, which are considered to be economically 'repressed'.

Yet as the Index points out, not so long ago Argentina used to be amongst the countries ranked as 'mostly free'. "Over the 20-year history of the Index Argentina's economic freedom has plunged to 'repressed' status. With its overall score dropping by 23.4 points, the once 'mostly free' economy has registered the second most severe score decline since the Index began measuring economic freedom". Alluding to the fact that the decline appears to have steadily taken place under the successive Kirchnerista governments of the late Néstor Kirchner (2003-2007) and his widow and successor, President Cristina Fernández, the report notes that there has been a substantial increase in the State's interference in the economy since 2003 to the point that "Eight of the 10 economic freedoms have deteriorated because of policies that include harsh capital controls, price fixing, restrictions on imports, and a series of nationalizations".

The criticism of the Kirchnerista economic legacy comes as the government's economic record is once again under severe scrutiny both at home and abroad as concern over Argentina's domestic economy mounts following the recent social unrest sparked as a result of the rising real rate of inflation in the country despite the government's stubborn insistence that the official inflation rate stands at around 10%. In these circumstances, it is unsurprising that a staunch Kirchnerista, such as defence minister Agustín Rossi, would feel compelled to come out in defence of Kirchnerista economic policy. In an interview with the state news agency, Télam, Rossi lambasted the Index, which he accused of being biased and intended to force Argentina to adopt neoliberal economic policies. Rossi said that he was "stunned by the virulence of the criticism that various messengers of the international financial order [sic] are making... with the clear intention by some economic sectors... to reinstate Washington Consensus economic models in Argentina".

Rossi noted that in 2002, when Argentina was ranked 38th by the Index, its unemployment rate stood at 24% and its poverty rate at 57% and that it made "no sense" for the drop in its ranking when unemployment now stands at 7% and the poverty rate is "in single digits". However, recently the local media has questioned the government's poverty figures, asking whether it is possible to have such a low poverty rate (6.5%), when the real double-digit inflation rate is undermining the population's purchasing power.

PARAGUAY-BRAZIL | Bilateral scientific cooperation agreement. On 13 January the governments of Paraguay and Brazil signed a new bilateral science & technology cooperation agreement, which they hope will help promote bilateral investment. The agreement was signed in Asunción by Paraguay's industry & trade minister, Gustavo Leite, and his Brazilian counterpart, Fernando Pimentel. Leite explained that the idea is for the agreement to help promote the existing production chains in Paraguay set up by Brazilian entrepreneurs in diverse sectors such as shoes, clothing and car parts, which according to Leite export over US\$200m a year back to Brazil. In addition, Leite said that the two ministries had also agreed to work together to secure special credit lines from Brazil's national development bank (Bndes) exclusively for Brazilian firms interested in investing in Paraguay. Meanwhile, Pimentel said that the agreement would also help to boost the exchange of technology in areas such as fuels, foods and health.

Pointedly, representatives from Brazil's agricultural ministry that accompanied Pimentel to Asunción said that they also held a meeting with Paraguay's agriculture minister, Jorge Gattini, to discuss the possibility of establishing public-private alliances to jointly promote the adoption of the latest seed production technology in Paraguay. According to Helcio Campos Botelho, the director of intellectual property & agricultural technology at Brazil's agriculture ministry, the goal is to "strengthen the relations of the agriculture ministries in our countries in order to promote rural development and the rational use of soil", pointing out that Paraguay has large areas of high-quality agricultural soil. Incidentally, on the same day Paraguay's trade & industry ministry revealed that the country's agricultural exports in 2013 were 10.83m tonnes, 34% more than in 2012, driven by increases in exports of processed vegetable products, seeds and fruits.

FMLN forges lead

With just over two weeks to go until presidential elections, there are signs that Salvador Sánchez Cerén, of the left-wing Frente Farabundo Martí para la Liberación Nacional (FMLN), is opening up a significant lead over Norman Quijano, of the main opposition right-wing Alianza Republicana Nacionalista (Arena). It is still highly improbable, however, that this will be enough for him to muster the 50% plus one of the vote required to win in the first round on 2 February.

Of the four surveys released by different pollsters this week (the final opinion polls allowed before the elections), Sánchez Cerén led in three - and by a large margin in two of those. A poll by CID Gallup, based on valid votes, gave Sánchez Cerén 49% of the vote, with Quijano on 37% and former president Tony Saca (2004-2009) of the Movimiento Unidad registering 14% support. A poll by the Universidad Tecnológica (UTEC), conducted between 10 and 12 January (a week later) gave Sánchez Cerén a similar lead over Quijano (38.3%-29%) with Saca third on 11.6%. Sánchez Cerén was up just over three points on the last UTEC poll in late November; Quijano did not move. A poll by DataResearch for the national daily *La Prensa Gráfica* put the FMLN on 30.4% with Arena, intriguingly, in third on 25.3% just behind Unidad's 26.7%. Only Mitofsky differed. It gave Quijano 35.3% to 31.8% for Sánchez Cerén, with Saca on 16% and 16.4% undecided.

Only six months ago the polls not only put Quijano out front but also suggested that about two of every three voters backing Saca (who at the time was posting twice as much support) would go to Quijano in the run-off. With Saca's support dwindling, this might not be enough for Quijano to overhaul Sánchez Cerén in a second round, which would be held on 9 March.

All of the opinion polls were carried out before the first ever presidential debate, broadcast live on television and radio, on 12 January, but this went some way to explaining Quijano's reversal of fortune. Sánchez Cerén was for the main non-confrontational, focusing primarily on his policy proposals during the debate, and this has been an unexpected feature of his campaign. It has left Arena, and Quijano, nonplussed, undermining their argument that the veteran guerrilla is a radical liability. If anything this tag seemed to apply more to Quijano, who advocated militarising the struggle against the mara gangs, with those arrested tried in military, not civilian courts.

In subsequent days Quijano sought to back away from this position, arguing that he had not intended to give the impression he would sideline the national police (PNC) and judiciary, still less do anything that contravened the constitution (as militarising public security would). Voters might be inclined to wonder what Quijano's real intentions are, however, as he has gone full circle from defending the truce with the gangs at the start of his campaign. Sánchez Cerén, meanwhile, calmly asserted that he would 'purge' the police and provide "more and better education" to improve the prospects of El Salvador's youth and reduce the appeal of gangs. Nothing too innovative there but at least it was consistent.

Arena's credibility has also taken a knock in recent weeks as corruption allegations have gathered around Quijano's campaign adviser, former president Francisco Flores (1999-2004), who was accused by President Mauricio Funes of misappropriating multi-million dollar donations from Taiwan while in power and gave a stuttering defence last week before a special legislative commission investigating the matter (see the latest edition of our sister publication *Caribbean & Central America Report* for a detailed account). Flores has since stood down from his advisory role.

Presidential debate

The two-hour presidential debate was widely hailed as an important step in consolidating El Salvador's democracy, although it will need to be sharpened up in future. The moderator never seemed to recover from an opening slip when he introduced the event as the "2004 presidential debate" and did not succeed in pushing candidates on to uncomfortable ground, although they all ducked his insistent questioning of how they would finance their promises. Instead, the 'debate' functioned more like a forum with each candidate given four minutes to present their takes on education, citizen security, healthcare and the economy without really being made to think on their feet.

Lobo's parting gift to Hernández – a shutdown law

Deputy Tomás Zambrano of the ruling Partido Nacional (PN) told the daily *La Tribuna* on 14 January that the outgoing PN-dominated congress, which hands over to 128 newly-elected deputies on 25 January, would sign off on yet another 'paquetazo' before it leaves. The economic adjustment package raced through before Christmas has caused uproar. The latest — a security package that among other things includes a new shutdown law giving the incoming PN executive led by Juan Orlando Hernández legal authority to bring down suspected narco planes – threatens to be equally controversial.

The Ley de Espacios Aéreos, Zambrano said, "is necessary, because we have to look for all mechanisms so that organised crime, narco trafficking and above all those planes...do not enter our country in any form". He added that Colombia, the Dominican Republic and other countries in the region have similar laws in place. He failed to mention, however, that such laws in several cases are no longer in active use, not least because of heavy US opposition. Indeed, there was a tiff between Honduras and the US not so long ago (in mid-2012) over several suspected shutdown incidents, including one involving US Drug Enforcement Administration (DEA) agents. Those incidents prompted the temporary suspension of US radar support for Honduras. Incidentally, Honduras is due this month to receive delivery of a US\$30m purchase of three radars from Israel for anti-drug trafficking efforts, in order to reduce reliance on "support from friendly countries" to combat drug-trafficking.

It is unclear how the US congress in particular, which has been scrutinising US cooperation with Honduras more closely, will react to this new law, which may or may not be in contravention of the Convention on International Civil Aviation (the Chicago Convention). Our sister publication, *Latin American Security & Strategic Review*, in September 2012 examined in detail shutdown policies and legislation in Honduras and the rest of the region.

GUATEMALA | POLITICS

Pérez Molina halfway there

President Otto Pérez Molina this week marked the halfway point in his four-year mandate. Compared with his predecessors, Pérez Molina remains relatively popular, despite doubts surrounding his claims of progress vis-à-vis security - the issue on which his mandate will most likely be judged given he won the 2011 election on an anti-crime platform.

A poll published by the national daily, *Prensa Libre*, on 13 January put President Pérez Molina's approval rating at 56%. While 13 percentage points lower than the 69% with which he began his second year in office, *Prensa Libre* noted this is still higher than those of his predecessors at the comparable point in their mandates, with Alvaro Colom (2008-2012) registering 43% approval; Oscar Berger (2004-2008), 18.5%; and Alfonso Portillo (2000-2004), 15%.

In his balance sheet Pérez Molina highlighted progress regarding one of his declared priorities upon taking office – addressing food insecurity. Bar Haiti, Guatemala has the worst rate of undernourishment in the region with 30.5% of the population (total 15m) undernourished, according to the 2013 annual State of Food Insecurity in the World report by the UN Food and Agriculture Organization (FAO).

Other measures

Deputy Tomás Zambrano said the security package would include six other new laws, including a compensation law for members of the public providing information as to the whereabouts of criminals; a law to overhaul the public ministry; a law for the protection of current and former senior public officials and their families; and a secrecy law that could allow the government to get additional financing for security measures from private banks on the basis of forecast future revenues from the controversial security tax on local businesses.

Tax take

Last month President Pérez Molina said that the tax take as a percentage of GDP was expected to reach 11.6% in 2013. While up from 10.9% in 2012 and 2011, the 2013 forecast is still less than the 12% minimum target established in the 1996 Peace Accords and among the lowest in the region. The departure of the finance minister, Pavel Centeno, last October [WR-13-43] – a key architect of Pérez Molina’s fiscal reform – was also a setback. Pérez Molina confirmed María Concepción Castro, a trained economist, as Centeno’s successor earlier this month. She took over on an interim basis last October, when Centeno resigned citing health concerns.

Pérez Molina claimed that through his government’s main flagship social programme, *Hambre Cero* (Zero Hunger), 106 children died in 2013 as a result of malnutrition, 28% less than in 2012. He said that the rate of deaths as a result of malnutrition dropped to 0.68% down from 2.2%. Yet doubts persist as to Pérez Molina’s efforts to address inequality, which experts long insist is the structural cause of the problem. Despite the ground-breaking approval of a fiscal reform in 2012, a month after Pérez Molina took office [WR-12-08], its efficacy has since been called into question amid various constitutional appeals filed against it by the conservative business elite (*see sidebar*).

Pérez Molina flagged up as his other main achievement, the fight against insecurity, which, the *Prodatos* poll showed, remains the main public concern, with 52% of the 1,200 respondents naming it as the country’s main problem, ahead of the economy (35%). While his anti-crime strategy has largely consisted of militarising citizen security, with a further six inter-institutional task forces (comprising police officials and military troops) introduced in 2013, Pérez Molina pointed to efforts to boost the police, increasing it to 30,000 this year, up from 22,000 when he took office.

Pérez Molina’s claims regarding progress in reducing homicide rates have been called into question by figures like human rights ombudsman, Jorge León. Pérez Molina claimed to have reduced the murder rate from 39 per 100,000 inhabitants to 34 per 100,000 (without specifying whether he was referring to his entire time in office or just the past year). Yet figures released by the national forensic institute (*Inacif*) at the start of 2014 show 6,072 murders took place in 2013, 47 more than in 2012. This followed reports last year suggesting murders were again on the rise [WR-13-35].

Corruption clouds

President Pérez Molina’s claims at the start of last year that 2013 would be the “year of transparency” have come in for some unfortunate scrutiny amid a current row between his government and *Acción Ciudadana* (AC), the local branch of the Berlin-based NGO Transparency International (TI), after Guatemala registered one of its worst performances in recent years in TI’s latest annual *Corruption Perceptions Index* (which ranks countries based on the perceived level of public sector corruption). The TI report created a stir after Guatemala dropped 10 places to 123. This was the second worst decline registered in the sub-region after Panama (which dropped 19 points to reach 102). Following heated exchanges between the government and AC, on 7 January the latter announced it was withdrawing from transparency initiatives promoted by the vice-presidency through the presidential commission on transparency and electronic government (*Copret*).

TRACKING TRENDS

GUATEMALA | Remittances reach record high. Remittances sent back home by Guatemalan expatriates reached a new record of US\$5.11bn in 2013, according to the central bank, and were up by 6.7% on the previous year. A total of 90% of the remittances came from the US, where 1.5m Guatemalan expatriates live, 60% of them illegally. The record figure came despite the deportation of a record number of 50,200 undocumented Guatemalans last year.

Meanwhile, the labour minister, Carlos Contreras, confirmed a 5% increase in the minimum wage to Q2,096 (US\$267) a month for workers in *maquila* manufacturing plants and the export sector and Q2,380 (US\$304) for workers in agricultural and other sectors. President Otto Pérez Molina announced the increases after employers and employees failed to reach an agreement, with the former offering 3.3% and the latter demanding 30% increases. This is effectively no more than an inflationary increase: inflation for the first 11 months of 2013 stood at 4.63%. It also remains below the cost of the basic food basket (CBA) in Guatemala which, for an average family of five, is calculated at Q2,897 (US\$369).

“Nothing will deter us, we will not stop until there is peace [...] we are coming for the criminals and they will be punished with the full weight of the law. There will be no quarter given.”

Mexican Governor of the conflict-torn state of Michoacán, Fausto Vallejo.

“No democratic country worthy of the name accepts press concentration giving one organisation almost 80% of the market.”

Peru's Nobel laureate Mario Vargas Llosa.

“In the same way that you showed unity and solidarity the day after the earthquake, you must unite to drive the country's development. We owe this to the victims of 12 January. Let's choose to not just exist, but to live, to celebrate life.”

Haiti's President Michel Martelly marks the fourth anniversary of the country's devastating earthquake.

Peru plunges into media maelstrom

When Peru's President Ollanta Humala decided to criticise the media group *El Comercio* last week for amassing too much influence after its purchase of *Epensa* gave it a near 80% share of Peru's newspaper market from about 50%, he was piggy backing on comments by Mario Vargas Llosa, the Nobel literature laureate and political commentator. If he hoped, however, that this would attenuate the ferocity of the attacks against him, he was mistaken. Humala was savaged for trying to curb press freedom, and for allegedly attempting to regulate and censor Peru's media akin to the Argentine government's moves against *Grupo Clarín*.

Vargas Llosa argued last week that “true press freedom is incompatible with media concentration as is happening in Peru”. It should be noted that Vargas Llosa left *El Comercio* in 2011 for its support of the presidential candidacy of Keiko Fujimori and started writing a column for *La República*, its main rival. Last November, a group of journalists and *La República's* director filed a lawsuit against *El Comercio* for monopolistic practices after its purchase of *Epensa* last August: *Grupo La República*, which has 16% of the newspaper market, had also sought to acquire *Epensa*, which publishes *Correo*, and other tabloids.

Vargas Llosa argued that the media must reflect different points of view and that the concentration of media ownership in the hands of *Grupo El Comercio* “clearly contradicts the constitutional principle (prohibiting monopolies)”. He insisted that the debate should be fought out at the judicial level, however, and not in a discredited congress, which he said would be the worst place for “a rational and sensible debate” and allow *Grupo El Comercio* to accuse the government of trying to restrict freedom of expression. The defence minister, Pedro Cateriano, echoed his words this week. President Humala followed his comments about it being “shameful and dangerous” for one media group to gain such a dominant position by calling for congress to take action.

El Comercio predictably went on the offensive and Humala's political opponents, Keiko Fujimori and former president Alan García (1985-1990; 2006-2011) accused him of trying to muzzle the free press. Alvaro Vargas Llosa, a prominent journalist, also took issue with his father, arguing that press circulation was in constant flux and that *Grupo La República* was essentially bitter because it had failed in its bid to purchase *Epensa*, which would have left it controlling just under 50% of the newspaper market like *Grupo El Comercio*.

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