

# latin american weekly report

04 February 2016, WR-16-05

ISSN 0143-5280

## CONTENTS

<b>LEADER</b>	<b>1</b>
Argentina's Macri faces crucial talks at home and abroad	
<b>BRAZIL &amp; SOUTHERN CONE</b>	
<b>BRAZIL</b>	<b>3</b>
Rallying to fight Zika	
<b>BRAZIL</b>	<b>5</b>
Rousseff roundly booed by congress	
<b>BRAZIL</b>	<b>5</b>
Back to the future?	
<b>PARAGUAY</b>	<b>7</b>
Cartes combats clientelism	
<b>CHILE</b>	<b>8</b>
Bachelet amends tax reform	
<b>ANDEAN COUNTRIES</b>	
<b>VENEZUELA</b>	<b>9</b>
Cval – well past its sell-by date	
<b>PERU</b>	<b>11</b>
Guzmán emerges as latest 'outsider' for top job	
<b>MEXICO &amp; NAFTA</b>	
<b>MEXICO</b>	<b>12</b>
Osorio Chong guns for peace in Guerrero	
<b>MEXICO</b>	<b>13</b>
Mexico City gets a constitutional upgrade	
<b>CENTRAL AMERICA &amp; CARIBBEAN</b>	
<b>PANAMA</b>	<b>14</b>
Top court in crisis	
<b>CUBA</b>	<b>15</b>
Vive Cuba!	
<b>POSTSCRIPT</b>	<b>16</b>
Death of Flores casts doubt over seminal corruption case	
Quotes of the week	

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

## Argentina's Macri faces crucial talks at home and abroad

It is crunch time for Argentina's President Mauricio Macri. Halfway through the traditional honeymoon period of 100 days Macri has made some bold gambits, but now some tough negotiations lie ahead at home and abroad. His government held two days of talks with 'holdout' creditors in the US to whom it plans to present a proposal later this week. Removing this obstacle to accessing international capital markets again is an economic imperative but any deal that is struck must be politically palatable. This is because at home the government will have to sell it to moderate factions of the opposition Partido Justicialista (PJ, Peronists) in the federal congress. At the same time the government is trying to hold its own against some of the toughest negotiators of all – national trade unions – in salary talks.

President Macri dispatched his finance secretary, Luis Caputo, to New York on 1 February for two days of talks with representatives of the 'holdout' bondholders – US hedge funds Elliott Management, Aurelius Capital, Bracebridge Capital, Montreux Partners, Dart Management and Davidson Kempner – mediated by Daniel Pollack, the 'special master' appointed by the US District Judge Thomas Griesa to oversee negotiations. The details of the proposal Caputo is expected to put on the table before the week is out may not be apparent for some time as both sides in the talks have signed a non-disclosure agreement, but the government set a precedent on 2 February when it resolved a dispute with the other principal group of 'holdouts', 50,000 Italian bondholders represented by Task Force Argentina, who had rejected debt restructurings in 2005 and 2010.

The government signed a "pre-accord" to pay US\$1.35bn in cash for bonds held by the Italians with a face value of US\$900m that Argentina defaulted on in 2001 (15% of the total debt owed to holdouts). Finance Minister Alfonso Prat-Gay celebrated the deal during a press conference in Buenos Aires. He said the deal respected the bond principal but with a "prudent interest rate which is much less than that established in the [2011] ruling by Icsid [the International Centre for Settlement of Investment Disputes]". In a clear allusion to the US hedge fund holdouts Prat-Gay added, "The difficulty that we have at the moment is that some bondholders want to be paid an interest rate which, under any sort of judicial criteria, is unacceptable".

It is a delicate balancing act for the Macri administration. It needs to draw a definitive line under Argentina's longstanding dispute with the holdouts by striking a deal which clears the way for the country to access external finance from international capital markets again. But it will need to take this deal to moderate factions of the PJ in order to win approval from the federal congress. This could be about to become easier.

## Kirchnerismo

Former president Cristina Fernández has increasingly taken to Twitter over the last week to condemn the federal government's actions, such as the dismissal of public-sector employees and power rate increases. One of her chief lieutenants, Deputy Julio de Vido, the former federal planning minister (2003-2015), also slammed the defection of Kirchnerista FPV deputies this week: "It is a serious mistake that these comrades have made; none of them showed their faces here to express their differences; the government is desperate for quorum and this group is going to give it what it wants."

## Splitting Peronism

The PJ held a meeting of federal deputies on 3 February to discuss the party's political positioning ahead of the new congressional session in March, and to agree upon a date for internal elections. The meeting pitted Kirchneristas loyal to former president Cristina Fernández (2007-2015) against politicians from the more traditional wing of the party. The former are intent on providing implacable opposition to the Macri administration; the latter have long looked askance at the excesses of Kirchnerismo and include pragmatic PJ provincial governors who favour harmonious relations with the government, and could be amenable to a governability pact with Macri in exchange for a healthy quota of federal funds.

Hours before the meeting the Kirchnerista Frente para la Victoria (FPV) faction of the PJ in the federal lower chamber ruptured. At least 12 (possibly 15) politicians left the FPV and joined three others (including two Peronists) in forming the Bloque Justicialista. This is a big boost for the Macri administration as it brings the FPV bloc down to 83 in the lower chamber; eight habitual allies of the FPV on top of this number are also in doubt. In theory the ruling Cambiemos is now the dominant force in the lower chamber, albeit it is a tripartite coalition composed of 43 legislators from the Unión Cívica Radical (UCR), five from the Coalición Cívica (CC) and only 42 from Macri's Propuesta Republicana (PRO).

The governor of the northern province of Salta, Juan Manuel Urtubey, was the driving force behind the FPV rift. He said the Bloque Justicialista would provide "responsible opposition", which in other words means it is open to offers from the Macri administration. Further ruptures are likely within the FPV, given the sharp differences between more moderate politicians and the radical ultra-Kirchnerista youth wing La Cámpora, but a rallying speech by Deputy Máximo Kirchner, Fernández's son, apparently prevented more widespread defections for now.

Urtubey was absent from the PJ meeting in Buenos Aires as his father died shortly beforehand, but it was an acrimonious affair given the earlier splits in the FPV. The only agreement to emerge from the meeting was that a party congress will take place on 24 February and that internal leadership elections will follow on 8 May. The precise nature of these elections will be clarified at the party congress but if they are to appoint a maximum leader of the PJ the outcome will be crucial for the Macri administration.

"We need to have unity of conception and action," Jorge Capitanich, the mayor of Resistencia, the capital and largest city in the north-eastern province of Chaco, said. "We cannot imitate a neoliberal right-wing government." Capitanich, a former cabinet chief (2013-2015) under Fernández, is the favourite to stand for the FPV in any internal leadership battle. Urtubey has aspirations to lead the PJ, as does Daniel Scioli, who Macri defeated in last November's presidential run-off. The one possible consensus candidate, according to the local media, is a former governor of San Juan, José Luis Gioja, but he is keeping his powder dry.

The concern for Macri is that some of his actions are being viewed as unforced errors that damage the prospect of a close-knit relationship with sectors of the moderate PJ, and might even push them back into the arms of Kirchnerismo in the future. Macri's designation of two supreme court judges by decree, for instance, was criticised by the whole PJ [WR-15-50]. There is also unease over the wave of dismissals of public sector employees without a clear explanation from the government. The government is preparing to roll out new laws to reduce the tax on earnings, eliminate value added tax (VAT) on food and broaden the universal child allowance, which will go some way towards mollifying moderate Peronists, but in the meantime it faces mounting protests.

## ñoquis

The Italian pasta gnocchi (ñoquis in Spanish) is used as slang in Argentina for sinecures, well-remunerated appointments given to or created for allies or favourites with no work involved. Gnocchi is traditionally eaten on the 29th day of every month in Argentina. On 29 January public sector employees dismissed by the government in recent weeks, who insist they are not 'ñoquis', staged a protest outside the federal congress where they served up gnocchi. The protest dubbed 'ñoquis made by ñoquis' was an attempt to raise awareness about what they see as their unfair dismissal.

## Combative unions

Protest marches were staged in Buenos Aires on 29 January, one led by 500 public employees at the culture ministry who had just arrived at work only to find they no longer had a job. The state workers' union Asociación Trabajadores del Estado (ATE) claims that over 20,000 contracted public sector workers have lost their jobs since Macri took office on 10 December and that they are not all 'ñoquis' as his government maintains (*see sidebar*). The leader of the ATE, Hugo Godoy, said this week that his trade union would organise a general strike before the end of February.

While one trade union is preparing to take to the streets to protest arbitrary dismissals, the country's largest trade unions are readying themselves for some street fighting with the government over wages. There are signs of a rift between the government and Hugo Moyano, the leader of the faction of the Confederación General del Trabajo (CGT) nominally allied to Macri through his fierce opposition to Kirchnerismo. The other faction of the CGT, led by Antonio Caló, and the Central de Trabajadores de la Argentina (CTA) will also be tough nuts to crack in the annual collective salary talks.

The trade unions want a 30%-35% salary increase to be the starting point for negotiations with the government. The labour minister, Jorge Triaca, said this week, however, that talks would be around the projected level of inflation of 20%-25% and that union demands were "unreasonable". Combustible union leaders accused the government of trying to impose a ceiling before the talks had even begun, prompting the cabinet chief, Marco Peña, to come out and publicly deny any such intention.

## Utility price increases

The trade unions argue that there are no official inflation figures right now as the national statistics institute (Indec) is undergoing a massive makeover by the government. They also point to the government's decision to ramp up electricity tariffs on 1 February by up to 600%, with gas tariffs to follow, insisting that workers cannot be made to pay for the increases.

The energy and mines minister, Juan José Aranguren, insisted that the increase in electricity tariffs was essential because lack of investment had left distribution networks "on the verge of collapse". Aranguren said the quality of service would now improve and the government would save US\$4bn a year through replacing an inequitable system established by Kirchnerista governments (which spent US\$10m on electricity subsidies last year alone) as residents of metropolitan Buenos Aires were paying much lower rates than the rest of Argentina. Aranguren insisted that a "social tariff" would spare some 900,000 of the poorest households bringing in less than two net minimum wages, AR\$12,120 (US\$872), the burden of the increases. But they will impact those earning slightly more than this figure sharply.

## BRAZIL & SOUTHERN CONE

### BRAZIL | HEALTH

## Rallying to fight Zika

The only applause received by President Dilma Rousseff during her address to a joint house of congress on 2 February came when she promised that no resources would be spared in the fight against Zika, the mosquito-borne disease linked to a rise in microcephaly. Over 200,000 soldiers have been mobilised to help carry out house-to-house searches for potential mosquito breeding sites; health workers, meanwhile, have been authorised to enter homes, by force if necessary, to eliminate the standing pools of water that nurture the *Aedes Aegypti*. Health officials estimate that around 80% of mosquito-breeding sites are located on people's properties.

## GM solution

Oxitec, a British biotech company, is testing genetically-modified mosquitoes in several municipalities in Brazil. The modified *Aedes Aegypti* males, which do not bite, are released into the wild where they reproduce with normal females who spawn offspring that do not survive into adulthood. Last September, Oxitec was bought by Intrexon. Last week Intrexon's stock rose by 24%.

According to the latest bulletin from the ministry of health, published on 2 February, Brazil is currently investigating 3,670 suspected cases of microcephaly, 76.7% of the recorded total. A total of 4,783 cases have been registered, but 709 of them have been ruled out, while 404 cases have been confirmed. Of those 404, only 17 have a confirmed link with the Zika virus. Though there appears to be a strong correlation between incidences of Zika and the rise in cases of microcephaly, researchers admit that they are still largely in the dark about how exactly the virus works and its relation to foetal brain damage.

Added to the uncertainty about the disease is the fact that different Brazilian states have different definitions of microcephaly. Pernambuco, for example, which is responsible for around one-third of the suspected cases of microcephaly, until November used <33cm head circumference as the standard for babies deemed to have been born with the condition; most other states used <32cm. "The problem is that we know so little about the disease," Dr Denise Valle, an epidemiologist at the Fundação Oswaldo Cruz, Brazil's foremost public health research centre, said. "We need to understand this virus much better; at the moment it is still a mystery." Complicating the situation yet further is the absence of effective testing for the virus. At present, the only available tests are molecular ones of a high degree of complexity. The tests can only be carried out in a specialised laboratory and they are only effective when the patient is expressing clinical symptoms, which is just during a three to seven day window.

## WHO ruling

On 1 February, the World Health Organization (WHO) declared the outbreak of the Zika virus a public health emergency of international significance. The declaration means that the organisation can now take the lead in coordinating the global response to the virus which it thinks could infect up to 4m people in the Americas over the next year. Margaret Chan, the director-general of the WHO, said that a coordinated international response was needed to accelerate the development of vaccines and rapid reliable diagnostic tests.

In the wake of the decision, the United Nations Children's Fund (Unicef) began working with the governments of countries in which the Zika virus is present to mobilise communities to prevent themselves from infection. It also launched a US\$9m appeal for its programmes to limit the spread of the virus and to mitigate its impact on newborns and families across the region. The UN World Tourism Organization (UNWTO) reiterated in a press release that the WHO had not recommended a travel ban.

Following the WHO declaration, President Rousseff convened a cabinet meeting to discuss the epidemic. As a result of the meeting, five staff members from every ministry will now be trained by health workers to learn about the eradication programme. Brazilian scientists have, for the most part, welcomed the WHO decision. But for Gonzalo Vecina Neto, professor of public health at Universidade de São Paulo (USP), the declaration will not mean much unless it results in significant funding for research.

## Lula in the media's sights, again

Few days go by in the Brazilian media without an allegation of corruption against former president Lula da Silva (2003-2011), some of which are based on the flimsiest of evidence. Given the ubiquitous nature of these allegations, it is occasionally difficult to spot which ones have a degree of validity.

The latest accusation is that Lula and his family personally benefitted from a money-laundering scheme organised by the construction firm OAS, in which they paid to renovate a luxury apartment for the former president in the São Paulo beach resort of Guarujá. On 31 January, the Lula Institute admitted in a note on its website that Lula had visited the Solaris condominium, the building in Guarujá whose ownership details are currently under investigation by the federal police. Lula, however, insists that while he purchased an option-to-buy on the property, he walked away from the deal.

## Rousseff roundly booed by congress

In a conciliatory gesture, President Dilma Rousseff abandoned her usual practice of delegating the task of addressing the first joint session of the federal congress of the New Year, and took to the podium herself. For her pains, she was roundly booed, in particular when she mentioned her government's plans to reintroduce a financial transactions tax (CPMF) and to use the social security fund (FGTS) to facilitate payroll loans as part of her government's attempts to stimulate domestic demand. Though the push for her impeachment may have ebbed in the summer recess, Rousseff still faces a largely hostile congress.

Speaking to the press the day after her address, on 2 February, President Rousseff said that she was not in any way put out by the booing. "Democracy is like that," she said. During the speech, the opposition began waving banners opposing the CPMF, which appeared to catch Rousseff off guard. "I ask you to take into account the exceptional nature of this moment," she said. "The CPMF is a necessary bridge between the urgency of the short-term and medium-term fiscal stability."

According to the government, the CPMF, which would apply to all financial transactions, would raise in the region of R\$10bn (US\$2.5bn) annually. The hostile reception was not mitigated by Rousseff's request for "support" from congress nor her promise that the CPMF would be "temporary". At one point, the jeering became so loud that congressional aides switched on a siren to demand silence.

Another section of Rousseff's speech which was loudly jeered was the passage about the FGTS, the length-of-service guarantee fund. The opposition claims that the use of FGTS resources for payroll loans will reduce the compensation workers will receive in the event of their dismissal. Rousseff insisted the FGTS and Brazil's state-backed banks had the funds to do this. The new credit category is expected to generate R\$17bn (US\$4.19bn) in new loans.

The speech took place a day after Jorge Zelada, a former president of Petrobras, the state-backed oil company, was jailed for his involvement in the massive corruption scheme at the firm. With many of her audience still expecting further inquiries from police and prosecutors over their involvement in the scheme, Rousseff was unable to resist a demand that those responsible for the US\$2bn scandal be punished "rigorously".

Both Eduardo Cunha, the speaker of the federal lower chamber of congress, and Renan Calheiros, the senate president, are under investigation for their role in the scheme. In another example of his supreme command of the chamber rules, on 2 February Cunha ensured another ally of his succeeded in sending back to square one the ethics committee investigation into whether he lied to congress that threatened to result in his expulsion. Calheiros has had less luck this week. On 3 February, it emerged that the supreme court will now decide whether to investigate his alleged use of embezzled funds to pay for the upkeep of a child born out of wedlock.

## BRAZIL | ECONOMY

### Back to the future?

Amid the worse recession since 1901, the Brazilian government's new finance minister, Nelson Barbosa, appears to be moving away from the austerity measures that characterised the tenure of his predecessor,

### Inflation predictions

On 28 January, the central bank released its latest predictions for inflation in 2016 and 2017. This year, it expects prices to rise by 6.3%, just within the target range of 4.5% plus or minus 2%. Next year, it expects prices to rise by 5%. At present, the annual rate of inflation is 10.7%.

## Unemployment

On 28 January, the national statistics institute (Ibge) released figures showing unemployment at 6.9% in Brazil's six biggest metropolitan areas in December, the highest result for that month since 7.4% in 2007. In December 2014, the rate was 4.3%. For the full year 2015, the rate was 6.8% - two points above 2014 - and the highest rate since 2009. This is a rare combination of high unemployment and high inflation that caused average workers' incomes to decline by -3.7% in 2015 to R\$2.265 (US\$561).

Joaquim Levy. On 28 January Barbosa, announced R\$83bn (US\$20.4bn) in extra credit from the country's state-run banks to help various sectors of the economy. Critics in the Brazilian media argue that President Dilma Rousseff is returning to the looser fiscal policies of her first term. Last month the International Monetary Fund (IMF) forecast that Brazil's economy would shrink by 3.5% this year, after contracting 3.8% last year.

The government plans to take at least R\$32bn (US\$8bn) from the workers' pension fund known as FGTS, with R\$10bn (US\$2.5bn) going to housing and another R\$22bn (US\$5.5bn) for infrastructure projects. On top of this, there will be a further R\$15bn (US\$3.9bn) in credit for financing capital goods, R\$10bn (US\$2.5bn) for rural credit programmes and R\$5bn (US\$1.25bn) for the working capital of companies. At a press conference, Barbosa said the new credit measures were aimed at helping Brazilian companies ride out the recession. "There is plenty of demand for these resources," Barbosa said. "This credit comes at no cost to the treasury. These are resources those banks already have at hand."

Perhaps unsurprisingly, the measures were well received by some of those sectors of Brazil's business community that stand to benefit, but there are doubts as to whether they will be sufficient to reverse the declining consumer confidence and increasing unemployment rates. "Our investments are present, the productive capacity is present," Luiz Moan, president of the national automakers association (Anfavea) was quoted as saying by Agencia Brasil. "What we need is to once again generate consumer confidence. What halts the domestic market today is the fear of losing one's job," he said.

The package announced last week is the equivalent of around 1.4% of Brazil's GDP. Some analysts argue that, at best, the measures will ward off a credit crunch but will do little to actively stimulate the economy. Speaking to the UK's *Financial Times*, Neil Shearing, an economist at Capital Economists, said, "Most of the measures are aimed at easing the strain on current debtors - put differently, they are designed to stop things getting worse rather than actually stimulate additional activity."

### Demand a concern

Others argue that the problem is not credit so much as the absence of borrowers. Ricardo Balistiero, a professor of management at Brazil's Instituto Mauá de Tecnologia, described the government's approach as "rudimentary" and argued that fiscal measures "are the most important issue for the country today". But he also acknowledged that the current political turmoil made further progress in that area complicated. "It is difficult to approve any project because the government has no majority," Balistiero said.

### Petrobras faces class-action lawsuit in US

In a decision made public on 2 February, a judge in the US has ordered Petrobras, the state-run Brazilian oil company, to face class-action litigation by investors seeking to recoup billions of dollars in losses stemming from a bribery and political kickback scandal.

In his decision, Judge Jed Rakoff wrote that, "Petrobras was a massive company with investors around the globe. Notwithstanding its size and its numerous and far-flung investors, the interests of the class members are aligned and the same alleged misconduct underlies their claims."

Petrobras has been accused of inflating the value of more than US\$98bn of its stock and bonds through years of corruption. Its market value has plunged to below US\$20bn from nearly US\$300bn fewer than eight years ago.

## Unexpected resignation

The investigations into *planillerismo* at the TSJE led to the resignation of Karina Rodríguez as social services director at the Asunción municipal government. Prior to her appointment by Mayor Mario Ferreiro in December 2015, Rodríguez served as a national deputy for her leftist Partido del Movimiento al Socialismo, when she acted as the liaison of Lino Valencia, a Spanish adviser contracted by the TSJE. Investigators found records signed by Rodríguez claiming that Valencia was working in Paraguay from October 2013 to December 2015, even though immigration records show that he last entered and left Paraguay in 2012. Rodríguez, who denies wrongdoing, was charged with falsifying official documents. She resigned on 20 January “to avoid tarnishing the Ferreiro administration”.

## Cartes combats clientelism

President Horacio Cartes has ordered all public entities to publish their payrolls since 2003. The measure is part of a new drive to find, shame and sack all ‘planilleros’ – the local term used to describe individuals that have been included on public sector payrolls due to their political affinities or kinship to political leaders. Such nepotistic and clientelistic practices have been common in Paraguay since the Alfredo Stroessner dictatorship (1954-1989) and have been tolerated by successive governments, irrespective of their political affiliation, ever since. However, in the wake of a series of official corruption scandals that have exposed how pervasive these practices remain, the increasingly unpopular Cartes has decided to tackle this issue in response to the public outrage it has caused.

“The president wants it to be clear to all ministers, heads of [public] entities and citizens in general that this issue of discrimination, *planillerismo*, of redundant people in public institutions must end,” Industry & Trade Minister Gustavo Leite said during a 28 January press briefing. Leite said that President Cartes was ordering all public entities to present the presidency with the names of all individuals that have been on their payroll in the last 13 years, including their salaries, qualifications and titles. The government will then conduct a major investigation to determine just how many public officials have been improperly hired or paid a salary without actually working. Leite said the probe would be carried out with “transparency, without persecution, with no discrimination, with no witch hunt; through the media we’ll make all the information available to the public and determine what steps to follow”. He was adamant that “this is not about a war with anyone, but it is a reality: there is discrimination... this must be reviewed and corrected”.

The catalyst for this was the *planillerismo* case affecting the supreme electoral court (TSJE) that emerged in mid-December 2015. The case centres on Manuel Radice, a TSJE councillor and close friend of TSJE vice-president Alberto Ramírez Zamboni of the main opposition Partido Liberal Radical Auténtico (PLRA). The local press discovered that Radice’s current wife, his ex-wife and one of his daughters were all receiving salaries from the TSJE even though it records only one of them (his current wife) occasionally clocked-in. This prompted an investigation into the TSJE, with 11 officials (including Ramírez and Radice) charged with breach of faith and 300 others under investigation, which has led to one unexpected resignation (*see sidebar*).

However, this is just one in a series of cases to emerge recently. And they affect all political parties and institutions. In the week before Leite’s announcement, two directors from the state-owned water utility firm (Essap) suddenly tendered their resignations, as did the director of the Yacyretá binational hydroelectric dam that Paraguay shares with Argentina, Juan Alberto Schmalko. Officially, Schmalko’s resignation was for “personal reasons” but it came amid allegations of mismanagement at Yacyretá and complaints that Schmalko, a politician from the ruling Asociación Nacional Republicana-Partido Colorado (ANR-PC), was not qualified to hold such a technically demanding post.

Essap’s president, Osmar Ludovico Sarubbi, said that the changes were “ordered not by him but by the [national] executive” as part of a bid to improve internal controls. Leite has announced that neither Essap, nor the state-run electricity firm (Ande), nor the state-oil firm (Petropar) will be allowed to increase their employees’ salaries, contract new workers, or even increase their tariffs this year, until they purge their payrolls of *planilleros*. All of this may play well to the public but how successful Leite’s “anti-corruption crusade” will be is a moot point.

### The impact of tax reform

A World Bank study “Chile: Distributive Effects of the 2014 Tax Reform” was presented at a seminar in November 2015. According to a press release by Chile’s finance ministry, the WB study indicates that “the Tax Reform has a positive impact on income distribution and sharply improves the fairness of the tax system”, because “the effects are strongly concentrated in the upper end of the income distribution curve and are reflected in a substantial increase in the effective income tax burden for the highest percentile in this distribution.” The report also maintains that the highest-earning percentile “will pay 93% of the increased tax revenue collected because of the changes to income tax.” Of the total collected, “73% comes from increased taxes paid by the wealthiest 0.1%.”

### Bachelet amends tax reform

President Michelle Bachelet this week promulgated a law simplifying her landmark tax reform passed in 2014 aimed at raising annual government revenues equivalent to 3% of GDP in order to fund health and education reforms. While Bachelet trumpeted the changes as part of efforts to improve implementation of the tax reform, which raised the corporate tax rate and ended some tax exemptions, her centre-left Nueva Mayoría coalition government continues to struggle vis-à-vis a slowing economy stemming in part from the ongoing slump in international commodity prices.

President Bachelet had announced plans last year to draft the new bill simplifying tax assessment particularly for small and medium sized enterprises (SMEs) in line with demands from the business sector [WR-15-33]. Sent down to the bicameral legislature on 15 December 2015, the bill was approved by the senate on 26 January and the chamber of deputies the following day. Having previously underlined that “this isn’t a reform within the reform, it is just the culmination of a process”, Finance Minister Rodrigo Valdés said at the signing of the new law on 1 February that this “simplification leaves us with a tax system fully implementable for the next few years”.

Back in November 2015, at a World Bank (WB) seminar which included a presentation on Chile’s 2014 tax reform, a finance ministry press release cited Finance Undersecretary Alejandro Micco as outlining the main points of the simplification bill as follows: it maintains “the two tax regimes: the semi-integrated system and the attributed income system. However, companies with complex corporate structures may only choose the semi-integrated system”. The press release notes that “companies whose partners are individuals who reside in Chile may choose between the attributed income and semi-integrated systems”, and cites Micco as saying “that some adjustments will be made to simplify the tax records that taxpayers must keep and more specifically define some aspects of [value added tax] VAT application in real estate matters.”

The WB and Bachelet government have been quick to point to the positive impact of the tax reform (*see sidebar*) and also, on 1 February, Valdés said that, as a result of a higher-than-expected tax take, the fiscal deficit was 2.2% of GDP in 2015, less than the 3.3% forecast. However the government continues to struggle in the face of the continued slump in commodity prices amid ongoing uncertainty about the level of demand from China. On 14 January Mining Minister Aurora Williams and the executive vice president of Chile’s national copper commission (Cochilco), Sergio Hernández, announced that Cochilco forecast the price of copper – Chile’s main export – to average US\$2.15 a pound this year, down US\$0.35 on Cochilco’s September 2015 forecast. Meanwhile for 2017, it is forecasting the average price of copper to rise to US\$2.2 a pound.

According to the latest Cochilco figures, Chile’s copper exports were valued at US\$37.96bn in 2014, accounting for half (49.5%) of Chile’s total exports. This was down from the US\$39.73bn exported in 2013 (51.4% of total exports), the US\$41.78bn (53.4%) exported in 2012, and the US\$43.61bn in 2011 (53.6%). The impact of all this on growth forecasts was suggested in a report released by Chile’s central bank (BCC) on 12 January; experts consulted cut their GDP growth forecast for 2016 to 2.1%, down from their 2.2% December 2015 estimate, and 2.8% for 2017, down from 3.0%. Another BCC report, released on 5 January, showed that Chile’s monthly economic activity index (Imacec), which incorporates around 91% of the goods and services included in the country’s GDP measure, rose by just 1.8% year-on-year in November 2015, with the rolling 12-month growth rate at 1.5%.



## Missing – US\$300bn

Two former ministers under the late former president Hugo Chávez (1999–2013), Jorge Giordani and Hectór Navarro, allege that US\$300bn of an estimated US\$1trn in oil export earnings in the decade to 2014 was embezzled. They want the state ethics council to investigate. Navarro, whose portfolios included education, was a founding member of the ruling Partido Socialista Unido de Venezuela (PSUV) but was expelled from the party in 2014. Giordani, a well-known Marxist and long-serving planning minister, was said to be Chávez's closest economic adviser. Both are members of Marea Socialista, a left-wing dissident group highly critical of the Maduro government. Both deny any personal involvement in the alleged corruption. The state ethics council comprises the chief prosecutor, the state ombudsman, and the national comptroller, all close to the executive.

## ANDEAN COUNTRIES

### VENEZUELA | POLITICS AND ECONOMY

#### Cval – well past its sell-by date

Venezuela's interior minister, Gustavo González López, on 31 January announced the detention of 40 people, with warrants pending for another 12, as part of a major investigation into corruption at the highest levels of the state-owned food corporation *Corporación Venezolana de Alimentos (Cval)*, and its distribution arm, *Abastos Bicentenario*.

While González López spun the crackdown as a triumph for the government led by President Nicolás Maduro, the fact that this level of corruption was taking place right under its nose is a major indictment of his administration, not least because Maduro himself has spent the best part of two years blaming right-wing conspirators for the serious supermarket shortages in the country.

'Operación Gorgojo' ('Operation Weevil') has claimed the scalps of the president of Cval, Hebert Aguilar; the president of Abastos Bicentenario, Bárbara González; as well as Bárbara Figueroa, Cval's administrator, all detained on 24 and 25 January. Also detained was Cval's head of security & transport, Carlos Saavedra Toro, and another employee identified as a 'messenger', Rubén Toro García. A raid on Figueroa's house turned up BF10m (US\$1.5m). The detainees are suspected of diverting food meant for the state sector to private-sector operators, in return for cash (and possibly other kickbacks). The private sector operators then sold on the food at "speculative" retail prices, according to the public ministry.

Maduro said the three (Aguilar, González and Figueroa) had been caught red-handed, "robbing the country". He praised the work of the police and the public ministry in the operation. The very next day, he announced the creation of a brand new state procurement system to cover all state agencies, making the rather ambitious pledge that it would "put an end to the damn corruption".

The lid has only just been lifted on this scandal, but corruption in the state food sector is not new. The best known was 'the rotten food scandal' of 2009, when 1,179 shipping containers laden with putrid food, worth an estimated US\$2.2bn, were discovered at the country's main ports, for which no-one has yet been held to account. There have also been allegations that the Caracas government has awarded lucrative food supply contracts to governments and state-linked suppliers in 'friendly' countries, like Brazil and Argentina, with none of the proper tender procedures followed. Some of these deals have back-fired, however, with suppliers in Brazil, Argentina and Uruguay left unpaid.

Meanwhile, the opposition-controlled national assembly, which is setting up public-sector corruption investigations of its own, may declare a 'food supply emergency' in the country, according to Julio Borges, head of the main Mesa de la Unidad Democrática (MUD) bench. Last week the assembly declared an emergency in medical supplies.

#### **Mendoza tables food proposal**

Lorenzo Mendoza, the high-profile president of Venezuela's main food company, *Empresas Polar*, has put forward a proposal to restructure the country's mounting debt with external suppliers and involve the local private sector in efforts to rehabilitate the state-run food sector (including a request to allow private sector producers to temporarily run companies previously expropriated). Mendoza also called for adjustments to the 'law of fixed prices' so as to incentivise production, and pledged that *Empresas Polar* would commit supplies to the government's social programmes.

## Pawning off the family gold

The Maduro government “will continue to liquidate assets in order to service debt until it can’t,” the consultancy Eurasia suggests. To this end, the government reportedly is shipping gold reserves abroad in support of debt swaps. The BCV reported US\$11bn in gold at end-November 2015. It reports US\$15.5bn in international reserves, a large proportion of which is also tied up in gold. Meanwhile, the Venezuelan consultancy Ecoanalítica estimates that there is some US\$4bn still swilling around in the government’s various opaque off-budget funds. However, Venezuela’s International Monetary Fund (IMF) and Special Drawing Rights (SDRs) reserve balance is now just US\$800m, from a total allocation of US\$3.6bn, after it drew down much of the reserve in 2015.

Mendoza insisted that the severe economic crisis in the country required urgent joint efforts by the government and the local business sector. According to Venezuela’s food industry chamber (Cavidea), production by its affiliated companies has fallen by 10% in the past four months alone, because of a scarcity of foreign currency to pay for imports; mounting debts with foreign suppliers; the continuing negative impact of fixed prices; and lower labour productivity in the domestic food sector.

Mendoza’s call chimes with recent calls by the state governor of Lara, Henri Falcón, formerly a high profile Chavista but now affiliated to the MUD, for the Maduro government to reverse the expropriation of companies and farms that have proven unproductive. Falcón mentioned specifically Agroisleña, noting that prior to its expropriation in 2010 (it is now known as Agropatria), the company, founded by Spanish immigrants, had been a successful agricultural supply firm with over 60 branches nationwide that provided financing and inputs to over 20,000 farmers. Critics contend that Agropatria, which now enjoys a monopoly position, favours state producers, giving them favourable access to imported equipment and inputs, as well as preferential access to financing. Falcón said that the Caracas government had taken over 130 farms in the state of Lara, comprising 11,789 hectares that previously produced over 1.7m tonnes of sugar cane, or 60% of the national total. Now, he claimed, those same farms produce less than 20% of the country’s sugar output.

The agriculture, production and lands minister, Wilmar Castro Soteldo, has said that the status of some expropriated farms is “under revision”, in particular live-stock farms. “Those seizures were not monitored in technical terms, which led to shortages of spare parts and consumables required to exploit them properly,” he said, which in layman’s terms would appear to mean that things went downhill after the estates were taken over. According to Ramón García, president of the national farm and cattle producer’s association (Confagan), Venezuela currently produces just 4m of the 10m litres of milk it consumes daily, with the rest imported; a very high percentage of 60%. In recent years, the Caracas government has cast the net as far as New Zealand for dairy imports.

### Default by default?

Venezuela has a debt stock of US\$125bn, a quarter of which falls due in coming years, including US\$10bn in the fourth quarter of this year, between the sovereign and the state oil company, *Petróleos de Venezuela (Pdvs)*.

Default is looming large, in the view of some external economists. In a recent client note cited by *Bloomberg*, Japan’s Nomura bank suggested that the country would have to cut imports by about US\$32bn this year – to zero – in order to avoid running out of money. “We have not seen any coherent approach to policy management that would suggest a thoughtful approach to debt default. Instead, our base case remains an accidental default with cashflow stress that eventually forces non-payment later in the year on the bulkier debt maturities,” the note cautioned.

With efforts to secure a restructuring now critical (Venezuelan officials have been coming and going to New York since late last year), the *New York Times (NYT)* has also made the point that there is potential for “inter-creditor disputes” as to “who should get paid when, and who should suffer when the debt is restructured”. Even more importantly, the outstanding debt may not contain collective action clauses, which could prove critical. That could mean, for example, that any restructuring would be “subject to being sideswiped by litigation in New York”, the *NYT* notes. And that, it adds, “might make bondholders hesitant to work with Venezuela in the first place...Why agree to take a ‘haircut’ if some other bondholder will get more by litigating? And the country has some assets outside the country, especially those tied to oil production, that might make litigation even more attractive than it was in the case of Argentina”.

**Acuña**

César Acuña insists he did not plagiarise his doctoral thesis at Spain's Universidad Complutense but was "mistaken" in not citing certain authors, which would appear to depart little from a dictionary definition of plagiarism. The investigation will take at least 30 days, after which the electoral authorities will decide whether Acuña can remain in the race. A series of corruption allegations against Acuña will also damage his standing, especially in urban areas, although they appear to have little impact on his appeal to the rural poor. That said the Brazilian political strategist Luis Favre (who helped Ollanta Humala win the 2011 presidential elections), appointed by Acuña last December, will be earning his keep trying to clear his candidate's name.

**Guzmán emerges as latest 'outsider' for top job**

It is too early to say whether there is a new star in the constellation of Peruvian politics but one of the leading candidates ahead of presidential elections on 10 April could soon be heading into a black hole. Julio Guzmán, a youthful economist running for the small Todos Por el Perú, came second in an opinion poll released by the national daily *La República* this week. Guzmán is effectively locked in a three-way tie for second with César Acuña (Alianza Para el Progreso) and Pedro Pablo Kuczynski (Peruanos Por el Kambio). The poll was taken before allegations emerged that Acuña plagiarised his doctoral thesis. If Acuña is stripped of his doctorate as a result, he could be expelled from the race for lying on the CV he submitted while registering his candidacy.

Guzmán, 45, graduated in economics from the Universidad Católica de Perú before carrying out postgraduate studies in the US and the UK and subsequently working for the Inter-American Development Bank (IDB) for over a decade. He has jumped from 2% support at the tail end of last year to 10.4% in the poll for *La República*. Guzmán owes his surge up the polls to young, middle class Limeños to whom he has successfully reached out through a skilful social media campaign: 45% of Guzmán's support comes from Lima; he takes two-thirds of his support from the 18-39 age group; and 40% of his support comes from socio-economic category 'C' (to which 27% of the population belongs).

Guzmán recently appeared on the popular radio programme 'Los Chistosos' on which he sang. His first vice-presidential candidate, Juana Maura Umasi, also 45, sang too – in quechua. The indigenous Umasi, who hails from the region of Huancavelica, one of the poorest areas of Peru, will be crucial to Guzmán's hopes. An odontologist with extensive experience in the public health sector, Umasi could allow Guzmán to reach out to poorer, indigenous voters in populous rural regions where few have heard of him yet and where there is a residual distrust of Limeños. Kuczynski, a much more experienced campaigner than Guzmán with a Lima-centric (albeit more patrician) support base, who fell to 9.5% in the latest poll, has never succeeded in winning over the poor majority in Lima's interior.

Guzmán's second vice-presidential candidate is also a shrewd appointment. Carolina Lizárraga is a qualified lawyer who made her reputation in 2005 by leading the investigation into a scandal involving the forgery of signatures to register Perú Posible, the party of former president Alejandro Toledo (2001-2006) before the electoral tribunal. The young magistrate specialising in corruption cases was appointed by former president Alan García during his second term in office (2006-2011) to head the (now defunct) national anti-corruption office (ONA).

Given that half of the respondents to the poll had not heard of Guzmán he has a lot of potential to grow, but he is now in uncharted territory. A political neophyte, he faces some formidable opposition if he is to retain second place from PPK and García, who normally has a hidden vote as his Partido Aprista Peruano (PAP) has a national presence. Acuña (10%) will also provide stiff competition if he is not ejected from the race by the electoral authorities (see sidebar). Acuña's support base provides a stark contrast to that of Guzmán. Acuña takes 68% of his support from socio-economic categories 'D' and 'E' and 80% from the interior. Rather than directly attacking his rivals for second place, however, Guzmán might fare better if he guns for the clear frontrunner, Keiko Fujimori. Keiko has a significant rejection rate and if Guzmán can demonstrate that he is capable of defeating her in a second round in June he could attract supporters from other candidates.

## Osorio Chong guns for peace in Guerrero

The federal government is making a fresh bid to pacify the most violent parts of the conflict-torn state of Guerrero. Six days after Interior Minister Miguel Ángel Osorio Chong visited Guerrero, 3,750 members of the federal security forces followed in his footsteps. Osorio Chong's visit took him to the Guerrero municipality of Chilapa, where he confirmed the installation of a military barracks with state and federal resources, construction of which will begin "practically immediately". Chilapa is the scene of a ferocious turf war between two rival criminal gangs, Los Rojos and Los Ardillos, leading to scores of brutal murders and disappearances, over the last two years. The objective of the massive deployment is to arrest the leaders of these gangs and restore some semblance of normality to the affected communities.

This is the third federal security operation in Chilapa, located just 50km east of the state capital Chilpancingo, in the last 18 months. The federal government sent 500 soldiers to Chilapa in July 2014 after violence erupted between Los Rojos and Los Ardillos and led to fatal clashes with the state police. The violence flared up again as soon as the troops left. In May 2015 federal police (PF) moved into Chilapa 10 days after 300 armed members of Los Ardillos masquerading as community police had left the municipality, having abducted 30 people, disarmed the municipal police, and occupied the premises of the public security secretariat, which they accused of protecting Los Rojos. Some 1,000 soldiers were dispatched to safeguard elections in Chilapa on 7 June last year after the murder of Ulises Fabián Quiroz, the mayoral candidate for the Partido Revolucionario Institucional (PRI) a month earlier.

Last week's deployment of federal security forces is by far the largest to Chilapa. The force will comprise 3,500 members of the army, the marines and the air force, as well as 250 PF officers and state police officers. The deployment of the force was agreed on 21 January when Guerrero Governor Héctor Astudillo hosted a meeting with Osorio Chong; the defence minister, General Salvador Cienfuegos Zepeda; the federal attorney general, Arely Gómez González; and the national security commissioner, Renato Sales Heredia, among others.

"I am convinced that with the assistance of the federal government...we're going to fight a big battle to push Guerrero forwards because it is essential that Guerrero confronts poverty and rids itself of violence," Astudillo said during the ceremony to launch the operation. Astudillo said the operation would be "short-term" and the priority would be arresting the leaders of the gangs, which between them are believed to be responsible for more than 100 execution-style killings and a similar number of disappearances.

Astudillo said the operation would ensure that there would be no repeat of last May's armed takeover of Chilapa in the future. But there must be a concern that, even with a bigger force, one month will not suffice to restore order if the gangs retreat into the shadows to wait for the troops to depart again before resuming hostilities.

The operation will not be confined to Chilapa, where there is currently a voluntary curfew at 3pm when businesses close and all transport stops. It will also extend to the neighbouring municipalities of Zitlala, Mártir de Cuilapan and the community of Zototitlán. Residents of these poor, predominantly indigenous, municipalities have seen their lives torn apart over the last two years as the gangs wrestle for control of the local marijuana and

### Criminal gangs

Los Rojos and Los Ardillos are both splinters from the Beltrán Leyva drug trafficking organisation (DTO). They are two of the local criminal groups in Guerrero which, along with Los Granados and La Barredora, control 15 of the state's 81 municipalities. The Beltrán Leyva group is the dominant DTO in Guerrero, controlling 26 municipalities. Guerreros Unidos and La Familia Michoacana control nine municipalities apiece. Many of these territories overlap and are disputed by rival gangs. Only 19 of the municipalities in Guerrero are considered free of the presence of criminal gangs.

## CDMX

The members of the executive, legislative and judicial branch in the Ciudad de México (CDMX) will have the same powers as their counterparts in Mexico's 31 states. While the mayor will become much like a governor, and the CDMX will be eligible for significant federal funding like other states, the federal government will continue to fix its public debt ceiling.

opium poppy growing areas. In parts of Zitlala there are no school classes or healthcare provision as neither teachers nor doctors are prepared to run the risk of going to work.

A man was found murdered in his van in Chilapa while the operation was being launched. The very next day, 28 January, the bodies of seven men, all showing signs of torture, were found in two separate places in Chilpancingo, which is not even included within the areas the federal security forces have been sent to pacify. And then as if this were not shocking enough, nine people were killed at the birthday party of a 15-year old in the western municipality of Coyuca de Catalán, in Tierra Caliente, another violent region of Guerrero bordering the state of Michoacán. A woman on her honeymoon was murdered in the same area after her van was confused with that of a rival gang by armed men on a nearby highway.

### 99 and counting

The federal government has now taken out 99 of the kingpins on its list of 122 most wanted drug traffickers in Mexico. Francisco Javier 'El 2000' Hernández García, believed to be the leader of the Beltrán Leyva drug trafficking organisation (DTO), was arrested during an army-led operation in the municipality of Guasave in the north-western state of Sinaloa on 30 January.

Despite the seniority of Hernández, a bigger blow was arguably struck against drug trafficking a day earlier when 22 members of the Sinaloa DTO were arrested and two killed in Sonoyta, in the adjacent state of Sonora. Sonoyta borders the US state of Arizona. Mexico's federal police cooperated with the US immigration and customs enforcement (ICE), which released a statement saying that "Due to the sensitive nature, this operation was conducted with utmost secrecy to maintain the element of surprise and to ensure the safety of the Mexican law enforcement officers executing it". The operation, which also saw 18 assault rifles and 250 kilos of marijuana confiscated, comes just weeks after the recapture of the leader of the Sinaloa DTO, Joaquín "El Chapo" Guzmán Loera.

## MEXICO | POLITICS

### Mexico City gets a constitutional upgrade

**Mexico will shortly be composed of 32 states in all but name. The Distrito Federal (DF) ceased to exist on 29 January and will now officially be known as Ciudad de México (CDMX, Mexico City) after it received the minimum threshold for approval of 23 state congresses. The 16 boroughs (*delegaciones*) in the DF, meanwhile, will become municipalities with their own mayors and councillors.**

"This is the result of consensual work, leaving aside private agendas and sectarianism, the result of dialogue," the left-wing mayor of the DF, Miguel Ángel Mancera, said at an event to mark the baptism of the CDMX in the national palace, along with President Enrique Peña Nieto and federal and local legislators. This is Mancera's reward for supporting Peña Nieto's cross-party reform agenda Pacto por México three years ago. Peña Nieto heralded a great day for federalism and democracy.

A 100-seat constituent assembly will now draft the CDMX's first constitution. The composition of this assembly has caused some friction. The left-wing Partido de la Revolución Democrática (PRD) and Movimiento Regeneración Nacional (Morena), the dominant political forces in the CDMX, bemoaned the fact that the federally ruling Partido Revolucionario Institucional (PRI) will be overrepresented. The federal government will select six deputies to the constituent assembly as will the current mayor, while the federal senate and lower chamber will choose 14 deputies apiece. The remaining 60 deputies will be elected directly by proportional representation.

## Top court in crisis

The head of the international anti-corruption NGO Transparency International, Peru's José Ugaz, recently called for Panama's nine-member supreme court (CSJ) to resign en masse. Ugaz's remarks, which were made in an interview with a local TV station, *TVN*, during a visit to Panama, follow other statements of concern from local civil-society groups and the private sector about a deepening crisis in the supreme court (CSJ).

Panama's judiciary has been in the public eye in recent months for various reasons. The exposure in November 2015 of a corruption ring in the judiciary followed the departure of a CSJ magistrate, Víctor Benavides, months earlier. Benavides went over alleged illicit enrichment and sexual crimes against minors [WR-15-48], becoming the second CSJ magistrate to quit since former CSJ president, Alejandro Moncada Luna, resigned in 2014, also over corruption. However the selection late last year of two new CSJ justices, Ángela Russo Maineri de Cedeño and Cecilio Antonio Cedalise Riquelme, who took up their posts for 2016-2025 terms on 4 January, was well received by civil-society groups such as Alianza Ciudadana Pro Justicia (ACPJ) and the national bar association. This despite initial criticism of the way in which an ad-hoc executive commission had drawn up its shortlist from which President Juan Carlos Varela made his choices, which were subsequently approved by the 71-member unicameral legislature last December.

This sense of optimism regarding the judiciary has since dissipated, however, following the CSJ's re-election at the start of the year of José Ayú Prado, a former attorney general (2011-2013), as its president for the 2016-2017 period. An ally of former president Ricardo Martinelli (2009-2014), who faces a handful of corruption investigations in Panama and has been in the US since January 2015, Ayú Prado's appointment was slammed by ACPJ and other civil-society groups given that eight complaints have been filed against him before the national legislature's credentials committee.

The crisis in the top court further escalated on 14 January, after a CSJ magistrate Harry Díaz, who ran unsuccessfully against Ayú Prado for the CSJ presidency, gave an interview with local media *Telemetro* in which he made a number of allegations against both Martinelli – whom he accused of meddling in the court during his time in office – and his colleagues. Among the incendiary accusations and examples of this interference by the executive, Díaz told *Telemetro* that Martinelli had put pressure on him to pick another CSJ magistrate, Luis Ramón Fábrega, as the CSJ's vice-president while the press also cited Díaz as saying that Moncada Luna had told him that “regarding Fábrega, there was proof of paedophilia”.

These accusations led Ayú Prado, Fábrega and another CSJ justice, Hernán de León, to file a complaint against Díaz before the legislature's credentials committee on 20 January, calling for his dismissal for unethical behaviour. While the committee ruled it out on the grounds that it failed to meet the standards for a proper criminal complaint against a public official, legal complaints against the justices keep growing. As well as a national deputy for the opposition Partido Revolucionario Democrático (PRD) Zulay Rodríguez, who has called for legal action to be taken against Ayú Prado, on 27 January ACPJ presented a complaint against the CSJ president, De León and Fábrega, before the national assembly in relation to excessive travel expenses. The national daily *La Prensa* reports that between 2012 and June 2015, the justices had made 92 trips abroad claiming expenses of US\$234,815 as well as trips domestically claiming expenses of US\$9,769.

### Corruption perceptions index

The timing of the scandal in the judiciary is particularly unfortunate for President Juan Carlos Varela as it comes as he recently boasted of Panama's improvement in Transparency International (TI)'s latest annual corruption perceptions index (CPI) released on 26 January. In the CPI, Panama came 72nd out of 167 countries (second only to Costa Rica [40] in Central America and tying with El Salvador), with a score of 39 (where 0 is highly corrupt and 100 very clean). This was up from its score of 37 in 2014.

**Anxious over US**

There is some nervousness in Paris and Madrid alike that traditional European investors will be squeezed out by Cuba's restoration of political and commercial ties with its nearest neighbour, the US. Addressing this, Cuba's trade minister Rodrigo Malmierca Díaz said that while Cuba was open to doing business with US-based companies, the Havana government did not want to see the country becoming dependent on these new relationships. "We won't keep out American business people, they are welcome, but we want to keep our relations diverse", he said, stressing that, "we don't want to be a tributary to anyone".

**Vive Cuba!**

President Raúl Castro this week became the first Cuban leader to enjoy a state visit to France since the island's independence. In Paris, the 84-year old Castro, on his first trip to Europe since formally taking over from his brother and predecessor Fidel in 2008, told French investors that Cuba was "open for business" and received firm support from his counterpart François Hollande for the removal of the US economic embargo on Cuba. Hollande called on US President Barack Obama to "go all the way and bring an end to this vestige of the Cold War".

Hollande himself went to Cuba in May last year and France has actively pushed the European Union (EU) to welcome Cuba back into the diplomatic fold, a process that is expected to be completed in coming months with the signature of a new 'political dialogue and cooperation agreement' between Brussels and Havana. France has pushed at the United Nations General Assembly since 1991 for the removal of the US embargo on Cuba, which dates back to 1962.

Fidel Castro visited France at the invitation of former president François Mitterrand back in 1995, which duly irritated the US, but that was a private three-day visit. Hollande rolled out the red carpet for Castro, who was received at the Arc de Triomphe and then driven down a Champs-Élysées dressed for the occasion in Cuban flags.

Castro was first and foremost looking for investment and financing as the country opens up its economy and gradually reinserts itself into the global market. Cuba's deputy foreign minister, Rogelio Sierra, said that the Havana government hoped that Castro's visit would allow Cuba to "widen and diversify its relations with France in all possible areas, politics, economics, trade, finance, investment, culture and cooperation".

Cuban ministers accompanying Castro were on message. The high-profile foreign trade and investment minister, Rodrigo Malmierca Díaz, noted that in the search for investment, a government can help put in place a favourable business climate "and that is what we are doing". Ricardo Cabrisas Ruiz, Cuba's vice-president of the council of ministers, noted that the December 2015 debt deal between Cuba and the Paris Club had removed a major burden for Cuba, clearing the way for access to new investment. Under that deal, the Paris Club agreed to forgive US\$8.5bn in overdue Cuban debt interest payments in exchange for a Cuban promise to pay off US\$2.6bn in outstanding loans over 18 months.

France, to which Cuba owed US\$4bn in overdue loans, led the negotiations. In Paris, Castro and Hollande inked a new bilateral deal for Cuba's remaining debt to France, amounting to US\$390m. Under this agreement, France will convert US\$230m into cooperation funds for joint projects in Cuba. The two also signed a deal to open an office of the French development agency, Agence Française de Développement (AFD) in Havana, from where it will provide loans to public and private bodies in Cuba for development projects.

**French investment**

Leading French companies, including the telecoms giant Alcatel-Lucent, as well as the energy firms Total and Alstom, already have investments in Cuba, as do French hotel companies. The French construction firm Bouygues is providing infrastructure for Cuba's newly revamped deepwater Port of Mariel and special development zone (ZedMariel), which the Cuban government is heavily banking upon to stimulate economic growth in coming years. The US-facing port has been envisaged as a major Caribbean hub in a post-embargo scenario, with the ability to berth some of the deep-water vessels coming through the Panama Canal from China and Asia, for example.

## POSTSCRIPT

### Quotes of the week

“[President Mauricio] Macri is simply a parenthesis between two victorious decades.”

*Argentina's Guillermo Moreno, trade secretary under former president Cristina Fernández (2007-2015) and a diehard Kirchnerista.*

“We are very good at detecting problems but not coming up with solutions, and we must have the solutions to the problems we find; not only isolate injustices but find responses to them.”

*Mexico's Jesús Ortega, a powerbroker in the left-wing opposition Partido de la Revolución Democrática (PRD).*

“[Lula] is the face of a corrupt party...the Partido dos Trabalhadores has no ethical standards and no limits.”

*Brazil's opposition governor of São Paulo, Geraldo Alckmin, on former president Lula da Silva (2003-2011) and the PT federal government.*

### Death of Flores casts doubt over seminal corruption case

El Salvador's former president Francisco Flores (1999-2004) died on 30 January having slipped into a coma six days earlier after suffering a brain haemorrhage. Flores was under house arrest awaiting trial for corruption. It would have marked the first time ever that a head of state had gone on trial in El Salvador. Now there is real uncertainty over whether the serious corruption allegations with which Flores was charged will make it to a court of law even though a legislative investigation clearly implicated the leadership of his party, the now-opposition right-wing Alianza Republicana Nacionalista (Arena) in the wrongdoing.

Flores's political legacy is checkered. It was Flores who launched the first 'mano dura' ('firm hand') operation against El Salvador's *mara* street gangs, a public security policy which, with one exception, has been adopted by successive governments since but produced the opposite of its intended result – a reduction in the homicide rate. Flores also took the momentous unilateral decision to abandon the colón and dollarise the national economy in 2001. This again failed to produce the desired results: there was no surge in GDP growth, which has stagnated in the low single digits for two decades now, one of the slowest rates of growth in the region.

One thing for which Flores was praised was his response to the two devastating earthquakes of 2001. This is deeply ironic in hindsight because in the corruption charges levelled against him he was accused of embezzling US\$15m of donations from Taiwan meant for victims of the earthquakes. At least two-thirds of this ended up in Arena party coffers, helping to finance the victorious election campaign of Flores's successor Antonio Saca (2004-2009).

Arena's leadership publicly mourned the passing of Flores but privately the party will be relieved at his death if it means the case is dropped. The trial promised to be very uncomfortable and politically damaging for Arena if details emerged of its misuse of Taiwanese donations that were meant for disaster relief and social programmes. The former president's son Juan Marco Flores took to Twitter and Facebook condemning Arena leaders as "hypocrites" who had hung his father out to dry.

### LatinNews Daily

**LatinNews Daily** is an essential briefing tool for anyone with a serious interest in Latin or Central America and the Caribbean and is relied upon by thousands of LatAm professionals world-wide.

It is the definitive English language resource delivered via email at 0800 EST outlining all key developments throughout the region with expert analysis on the likely impact of each development.

**LatinNews Daily** costs just \$1,760 USD or £1,080 GBP for the year. For a 10-day free trial register at [www.LatinNews.com](http://www.LatinNews.com), or for further information please contact Maria Isotalo via our online form at: [www.latinnews.com/contact-us](http://www.latinnews.com/contact-us).

**LATIN AMERICAN WEEKLY REPORT** is published weekly (50 issues a year) by **Latin American Newsletters**, Hamilton House, Fourth Floor, Mabledon Place, London, WC1H 9BB, England. Telephone +44 (0)203 695 2790, Email: [subs@latinnews.com](mailto: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 **COPYRIGHT © 2016** in all countries. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, electrical, chemical, mechanical, optical, photocopying, recording or otherwise, without the prior written permission of the publishers. Registered as a newspaper by Royal Mail. **REFERENCES:** Back references and cross-references in the current series will be made thus: WR-16-01 will indicate Weekly Report, 2016, issue 1.