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Assessing the impact of Brexit on Latin America

At first blush the impact on Latin America of the decision by voters in the United Kingdom (UK) to leave the European Union (EU) in a referendum on 23 June would seem to be small. Trade flows are not large even if investment by the UK, in certain countries in the region, is more significant. But even if the UK definitively leaves the EU at some stage in the next few years, trade and investment might not dip. There is a concern that, with international markets reeling, access to crucial credit could become more difficult for Latin American countries, and borrowing more expensive. But the real fear for the region is the impact of Brexit on the EU, its second-largest trading partner and first investor, which could become more inward-looking or in the worst-case scenario start to implode, falling prey to resurgent nationalist forces with protectionist agendas, with a concomitant effect on globalisation. Not knowing whether to expect ripples or huge tsunamis from Brexit seriously complicates policymaking.

Investment more important than trade

Of all the countries in the region, Colombia depends most on exports to the UK, although it still only accounts for 2.5% of the country's total exports, principally coal, bananas and coffee. In 2014 Colombian exports to the UK totalled US$1.1bn, nearly twice what it imported from the UK (US$595m).

In absolute terms, the export figure is higher for Mexico. Mexico sells US$1.8bn of goods and services to the UK every year (US$2.2bn goes the other way). Mexico's total exports were US$410bn in 2014 and imports US$400bn. So the UK makes up just 0.44% of Mexico's exports and 0.55% of Mexico's imports. It is a similar story with Brazil, which exports some US$4bn of goods and services to the UK annually (1.7% of total exports) and imports around US$4.2bn. Chile's exports to the UK make up 1% of its global total.

It is also much the same in Central America. In 2015 the UK was the 15th largest importer of Central American products (US$385.2m), largely tropical fruit (although this is down from US$437.5m in 2011). In total the UK absorbed 1.37% of Central America's total exports of US$28.04bn. In the case of Nicaragua exports to the UK amount to 2.1% of the total, followed by Honduras (1.92%), Costa Rica (1.87%), Panama (1.32%), Guatemala (0.87%) and El Salvador (0.23%).

Even these comparatively small trade flows need not necessarily be affected by the UK leaving the EU. Colombia's trade minister, María Claudia Lacouture, has already proposed that the Pacific Alliance trade bloc, comprising Chile, Colombia, Mexico and Peru, seek to negotiate a free trade agreement with the UK jointly. Like Central America they each have an association agreement with the EU. Chile's finance minister, Rodrigo Valdés, expressed confidence that negotiating trade deals was "much easier than 20 or 30 years ago".

Falkland Islands
There is serious concern in the Falkland Islands/Malvinas about the possible ramifications of Brexit. Some 60% of the GDP of the Falkland Islands depends on fishing exports, especially squid, and of these 95% go to the EU, which without the UK might erect trade barriers. The Falkland Islands will also lose around 1m euros from the EU every year to promote economic diversification. There is also a fear in the Falkland Islands government that EU member states will be less inclined to support its claims to self-determination if the UK leaves. On the same day as the referendum Argentina's foreign minister, Susana Malcorra, a candidate to be the next UN secretary general, appeared before the UN Special Committee on Decolonisation. "Argentina has strongly supported the principle of self-determination of peoples," Malcorra argued. "However, the principle of self-determination, like any other principle, is not absolute. It cannot violate the territorial integrity of existing states."

Mexico's economy minister, Ildefenso Guajardo, said "Mexico is ready to present a possible accord with the UK…when it becomes necessary".

Investment by British companies in Latin America, especially mining, is more significant than trade flows. The UK has been the second-most important foreign investor in Colombia, totalling US$6bn over the last eight years, according to figures provided by the British embassy in Bogotá. In Peru UK investment represented 18% of total foreign direct investment (FDI) of US$23.28bn in the country in 2014, more than any other country except Spain (19%), according to Peru's investment promotion agency Proinversión.

The victorious 'Leave' campaign made the argument that, freed of the suffocating yoke of EU bureaucracy, British companies could be far more dynamic when seeking foreign investment opportunities. Conversely, while new opportunities might open up for British firms, a weakened currency and the risk of the UK tipping into recession could reduce their capacity to invest. British tourism to Latin America will certainly be impacted by the pummelling sterling has taken, falling to a 31-year low against the US dollar.

When Colombia's President Juan Manuel Santos, a strong Anglophile, said before the vote that Brexit would be "a headache", he was not just referring to trade but the risk that the UK would not be in a position to step up its considerable investment in the country just when there are likely to be more opportunities than ever, with Colombia urgently requiring FDI to fund transport, infrastructure and other development in areas that will soon be opened up, now that a peace accord with the Fuerzas Armadas Revolucionarias de Colombia (Farc) is nigh (*see pages 4-5*).

Impact on EU-Latin American relations

Looking beyond Latin American ties with the UK, the bigger concern for the region is the likely impact on its relations with the EU. Javier Díaz, the president of Colombia's national association of foreign trade (Analdex), for instance, said that while "bilateral trade with the UK is not too significant for Colombia, and exports should stay the same if the rules of the game don't change, the problem could be the EU as without the UK it is clear that the recovery of this block of nations will take longer than expected, as well as its international trade."

Uruguay's President Tabaré Vázquez expressed his concern that Brexit "could complicate" negotiations between the Southern Common Market (Mercosur) and the EU which will have more pressing priorities than expediting resumed talks that have dragged on since 1999, not least because the UK was one of the firmest adherents of this and other trade agreements with third parties. One of the major impediments to a deal has been agricultural protectionism, especially in France, and there is a very real fear that the EU will become less outward-looking, particularly given its myriad internal challenges, such as the rise of right-wing nationalism, jubilant about Brexit, which threaten the whole European project.

The EU is the second-largest trading partner for the region, and the largest provider of FDI. If it becomes more isolationist, trade and FDI volumes would most likely fall. Remittances from the region, especially Spain, are likely to decline along with tourism from Europe given the devaluation of the euro against the US dollar.

By extension if EU economies weaken, and become more protectionist, it will damage Chinese exports and growth. If the Chinese slowdown deepens, with reduced demand for commodities and drying up credit lines, it would hit Latin America hard. China's Foreign Minister Lou Jiwei said that Brexit would "cast a shadow over the global economy", while Huang Yiping, a member of the monetary committee of China's central bank, said it could mark "a reversal of globalisation".

Hyperbole?

It is entirely possible that some of the most doom-laden reactions to Brexit overstate the threat. The UK and the EU might just reach a relatively swift accord that maintains many of the features of the existing relationship. It is far from inconceivable that in the absence of any coherent plan from those who orchestrated the 'Leave' campaign; the swift unravelling of many of the promises that underpinned the result; moves by Scotland and Northern Ireland, which voted to remain in the EU, and want to preserve this status; and the likelihood of political uncertainty, especially if there is a sharp economic downturn, leading to fresh elections, the UK's status could be 'revised' without the radical step of complete withdrawal from the EU being taken.

Reversal of globalisation

This leads on to the biggest fear for the majority of countries in the region. That the ripple could turn into a tsunami, with Brexit heralding an unravelling of the current global consensus behind greater openness and ever-increasing integration. Argentina's Foreign Minister Susana Malcorra said Brexit was "a great concern" and "worries us enormously" as it constitutes "an intense jolt to the world's institutions". Behind these words lies an alarm that just as Argentina is arriving at the party, the developed nations are finishing their drinks. After 12 years of inward-looking and protectionist Kirchnerista governments, Argentina's President Mauricio Macri has made openness to trade and attracting FDI the cornerstone of his economic growth and development strategy.

Peru's outgoing finance minister, Alonso Segura, said that while the economic impact on Peru would be indirect and felt in the medium-term, it was "worrisome that these separatist initiatives are happening in other parts of the world". Peru is one of the driving forces behind the Pacific Alliance, which is pushing for greater openness in global trade, and this is very much a vision shared by the president-elect Pedro Pablo Kuczynski, who on the eve of the vote said that Brexit would be a "tragedy" as it would "break up the EU and affect the markets".

Market instability could make it more difficult to access credit for Latin American countries and increase borrowing costs. Ecuador's President Rafael Correa maintained that Brexit had "spoiled" a major bond issue that his government had intended to make this week to finances the battered budget. Ecuador, along with El Salvador, as the region's two dollarised economies, would also be very vulnerable to an appreciation of the US dollar in the wake of Brexit, making their exports more expensive. While higher gold prices will be of benefit to some countries, notably Peru, the prospect of a default by Venezuela, with dollar-denominated debts, has surely now been brought one step closer.

Action taken

While the Brazilian government emphasised the country's solid fundamentals (*see page 10*), the Mexican government took concrete action in the face of the perceived risk posed by Brexit. "The British people have surprised the world…This event creates enormous uncertainty about the impact on the economy of the UK, of Europe and therefore the whole world," the Mexican finance minister, Luis Videgaray, said. "How will we respond? By strengthening our macroeconomic fundamentals, acting with responsibility."

Videgaray announced a cut in public spending to the tune of M$31.72bn (US$1.73bn) due to "huge volatility" and the need to "reduce external financing needs": the peso suffered a significant depreciation against the US dollar in the immediate wake of the vote. This follows a much bigger public spending cut of M$132.30bn (US$7.2bn) last February. But while the state-owned oil company Petróleos Mexicanos (Pemex) bore the brunt of the previous cut, 92% of the post-Brexit cut was to current spending, mainly education and health, strange choices given the conflicts in both sectors (*see page 13*).

A far bigger impact on Mexico would be a victory for Donald Trump in the US presidential elections in November, and Mexican policymakers are worried that some of the underlying forces that drove Brexit could also propel Trump to power. A victory for Trump would see a renegotiation of the North American Free Trade Agreement (Nafta) and the demise of the Trans-Pacific Partnership (TPP), involving the US, Asian and Latin American countries, and the Transatlantic Trade and Investment Partnership (TTIP) with the EU, a big check on globalisation.

COLOMBIA | POLITICS

Details of demobilisation divulged

President Juan Manuel Santos and the maximum leader of the Fuerzas Armadas Revolucionarias de Colombia (Farc), 'Timochenko' (Rodrigo Londoño Echeverri), heralded the most significant milestone in the current peace process in a ceremony in Cuba on 23 June attended by various heads of state and other luminaries. Details of the accord on a definitive bilateral ceasefire and guerrilla disarmament and demobilisation were provided for the first time, including, crucially, the zones where Farc guerrillas will be concentrated for up to 180 days from the signing of the final peace accord to hand over weapons to United Nations (UN) verification teams.

"[The accord] signifies no more nor less than the end of the Farc as an armed group," President Santos said during the ceremony. Santos stressed that "other violent and criminal phenomena subsist, such as the ELN [Ejército de Liberación Nacional] and criminal groups associated with drug-trafficking, but what everyone should understand is that this accord with the Farc signifies the end of the war with the biggest and oldest guerrilla organisation and has an immense importance for Colombia's present and future".

Timochenko, who has been far more cautious about the progress of the peace process, was equally upbeat on this occasion. "The Farc completed 52 years of guerrilla resistance on 27 May and now we see the dream of peace closer than ever," he said. "Let this be the last day of the war; we are going to engage in politics without weapons," he added (*see sidebar*). A Farc commander, 'Carlos Antonio Lozada' (Luis Antonio Losada), the leader of the Farc negotiating team on the sub-commission which thrashed out the practical issues of the accord, expressed his confidence that the Colombian people would accept the final accord in a referendum but that in the event of a 'No' the Farc would not take up arms again but rather return to the negotiating table.

Timochenko

"We will work for the unity of the democratic and popular movement in our country, without sectarianism or hegemonic positions...with the objective of creating profound changes in the lives of Colombians," Timochenko said during his speech in the ceremony in Cuba. Of the armed forces, he added, "we were adversaries, in future we will have to be allies for the good of Colombia".

A significantly more relaxed atmosphere prevailed than when Santos and Timochenko met on 23 September last year for the first time, to mark the striking of a breakthrough accord on transitional justice, when Cuba's President Raúl Castro forced them into a reluctant handshake. There were no heavy silences. Santos even presented Timochenko with a gift, a so-called 'balígrafo', produced by the education ministry. This pen was made out of a bullet which the head of state told Timochenko signified that "bullets wrote our past, education will write our future".

Farc commanders shook hands with government representatives, and sang the national anthem. Deputy Clara Rojas, of the Partido Liberal (PL), who was held captive by the Farc for the best part of six years, shook hands with 'Pastor Alape' (Felix Antonio Muñoz Lascarro), a member of the Farc high command, or secretariat, amid an atmosphere of reconciliation. An active general in the armed forces told a correspondent for the Colombian weekly *Semana* that he had shaken hands with another member of the secretariat, 'Pablo Catatumbo' (Jorge Torres Victoria), and told him that the end of the war meant he now knew he would see his children grow up.

The Farc even applauded Santos in the middle of his speech when he said that he had fought the group "perhaps with greater determination than any other Colombian" but would defend its right to be heard as a committed democrat: "We're not in agreement, and we assuredly never will be, with its political and economic vision for the country, but what is being recognised today is the possibility of dissenting and having opposed positions without the need for violent confrontation…I have been an implacable adversary but I will defend with equal determination its right to express itself and to pursue its political fight in a legal manner."

23 concentration zones

Department: Municipality

Cesar: La Paz

Norte de Santander: Tibú

Antioquia: Remedios, Ituango, Dabeiba

Tolima: Planadas, Villarica

Cauca: Buenos Aires, Caldono

Nariño: Policarpa, Tumaco

Putumayo: Puerto Asís

Caquetá: Montañita, Cartagena del Chairá

Arauca: Arauquita, Tame

Meta: Macarena, Mapiripán, Mesetas, Vistahermosa

Vichada: Cumaribo

Guaviare: San José del Guaviare

Eight four-hectare camps

Department: Municipality

Guajira: Fonseca

Antioquia: Vigía del Fuerte

Chocó: Riosucio

Córdoba: Tierra Alta

Cauca: Corinto

Caquetá: San Vicente

Meta: Losada, Macarena

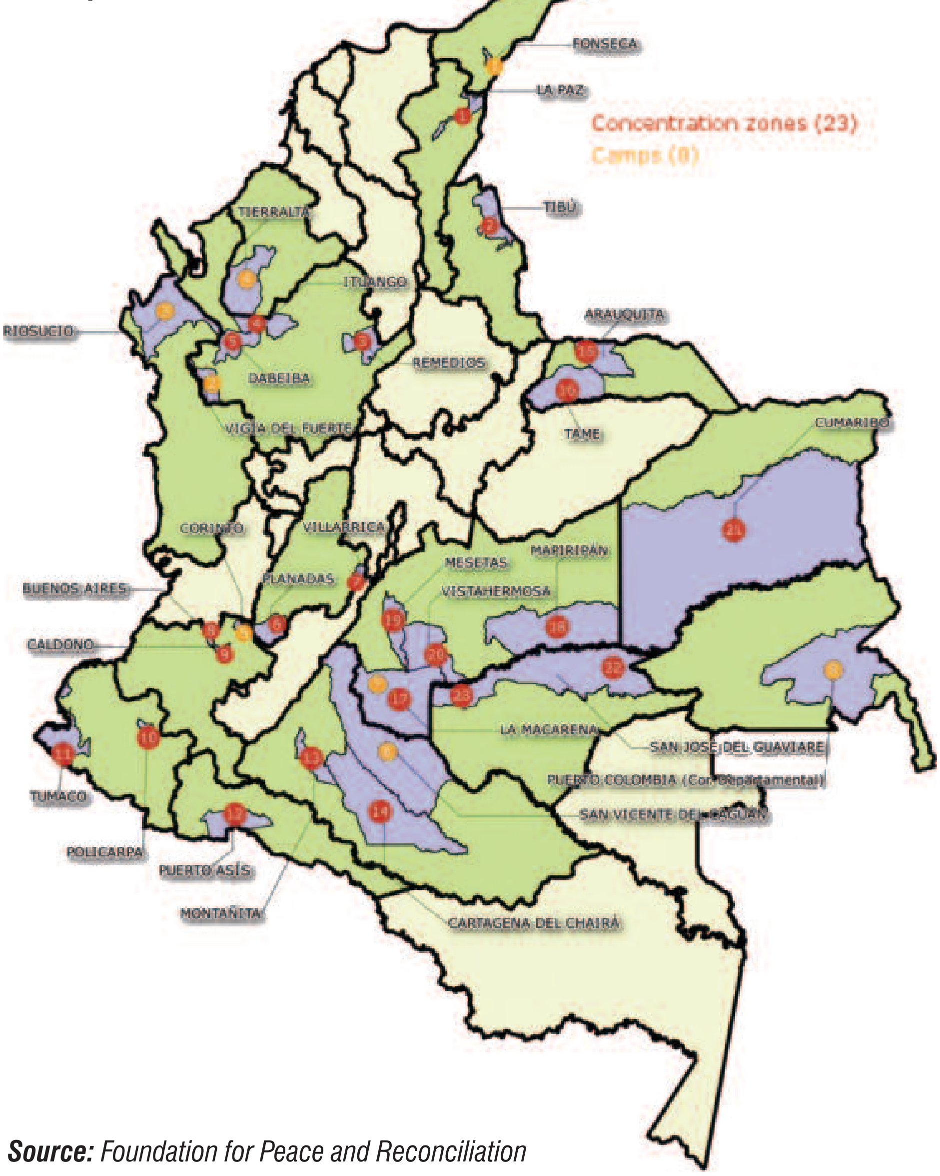
Santos stressed the importance of the transitional justice system, truth, reparation and guarantees of non-recurrence, as well as development opportunities and state services becoming "the rule and not the exception" in Farc-controlled areas. But his insistence that democracy would be strengthened through the Farc's political participation is one of the issues most fiercely criticised by the main opposition Centro Democrático (CD) of Senator Alvaro Uribe (former president 2002-2010), who said that the word 'peace' had been "wounded" by the terms of the accord.

Demobilisation

Before the Farc can engage in political participation, of course, it will need to demobilise. The latest accord spells out how this will be carried out. A total of 23 temporary concentration zones will be established and eight camps in remote rural municipalities across 12 of the country's departments (*see map below*). These carefully selected zones are distant from areas of coca cultivation, mining and strategic infrastructure to try and diminish the risk of running into the areas of influence of the ELN and neo-paramilitary groups.

The plan is to ensure the security of these concentration zones, which will hold an estimated 6,800 guerrillas and 8,500 urban militias, through a 1km perimeter buffer area into which only members of UN verification teams will be permitted to go. The UN will monitor the Farc ceasefire and disarmament in the zones, which will also help to prepare the guerrillas, who will not be allowed to carry arms or wear uniforms, for civil life.

Farc concentration zones and camps for demobilisation



Source: *Foundation for Peace and Reconciliation*

The Three Amigos – shoulder to shoulder

At the North American Leaders' Summit in Ottawa, Canada on 29 June (also known as the 'Three Amigos Summit'), US President Barack Obama, flanked by his counterparts President Enrique Peña Nieto of Mexico and Canada's Prime Minister Justin Trudeau, described the situation in Venezuela as "very serious" and called on the government led by Nicolás Maduro not to block the opposition's "legitimate" efforts to hold a presidential recall referendum.

President Obama made clear that the three leaders were united in their position. "Given the very serious situation in Venezuela and the worsening plight of the Venezuelan people, together we're calling on the government and opposition to engage in meaningful dialogue and urge the Venezuelan government to respect the rule of law and the authority of the national assembly," he said. "Political prisoners should be released, the democratic process should be respected and that includes legitimate efforts to pursue a recall referendum consistent with Venezuelan law," he continued. For that latter phrase, 'consistent with Venezuelan law', read 'timely', as the US Secretary of State, John Kerry, recently also emphasised.

The Obama statement marks the first time in a while that President Peña Nieto has been associated with such a clear public position on Venezuela. Despite Peña Nieto's pledge upon taking office in December 2012 to 'pivot' Mexico's US-facing foreign policy back towards Latin America, the results have been piecemeal. For obvious reasons, Mexico's main regional focus remains on neighbouring (and complicated) Central America. It is also a key member of the Pacific Alliance trade bloc along with its like-minded regional allies, Chile, Peru and Colombia; but Mexico has long tended to leave South American issues to Brazil, which jealously considers South America its 'turf', and fiercely guards its self-appointed 'hegemony' in the region.

To date, Brazilian efforts to deal with Venezuela have floundered, in the first instance because the left-wing Partido dos Trabalhadores (PT) government in power since early 2003, along with the also-leftist *Kirchnerista* government in Argentina (2003-2015), indulged the radical left-wing 'Bolivarian Revolution' in Caracas for too long (often for self-interested reasons); and more latterly because Brazil itself has also spun out of control. And while both Argentina and Brazil, newly under more centrist governments, have recently taken a much harsher line on Venezuela, such is the extent of the crisis in Caracas now that they – along with the rest of the region – appear to be relying anew on the US to provide direction in the efforts to get the parties in Venezuela around a dialogue table.

These efforts, formally led by the Ecuador-headquartered Union of South American Nations (Unasur), involve attempts by Spain's former prime minister José Luis Rodríguez Zapatero (2004-2011), and the former presidents of the Dominican Republic, Leonel Fernández (1996-2000; 2004-2012) and Panama, Martín Torrijos (2004-2009), to get the Maduro government and Venezuela's main opposition coalition, Mesa de la Unidad Democrática (MUD), around a table in Santo Domingo. To date, the efforts, ongoing since May, have got nowhere. The MUD considers Unasur – and indeed the three mediators themselves – as ideologically biased towards the Maduro government. The MUD also rejects out of hand the Maduro government's condition for dialogue – that it drop its push for a recall referendum. Rodríguez Zapatero came under particular MUD fire after he hand delivered this proposal to the MUD, which accused him of being no more than a mere 'messenger boy' for Maduro.

The position of the main hemispheric Organization of American States (OAS) is also a little unclear after its decision last week not to vote on whether

Maduro backs legal moves against assembly

President Maduro has backed a new effort by the Gran Polo Patriótico (GPP), the leftist political coalition led by the ruling PSUV, which may ask the supreme court constitutional chamber to "abolish" the MUD-controlled national assembly and call new legislative elections on the grounds of violation of the 1999 constitution; treason; usurping of functions; and abuse of foreign policy authority (the remit of the executive). Maduro, who has previously warned that the days of the national assembly were numbered, declared on 29 June that the second half objective should be to "denounce and defeat" the assembly, arguing that it is "a reverse for development, and for the country, that it remains in the hands of legal teams of transnationals and multimillionaires seeking to use public power to stop the country's route to independence and development".

Julio Borges in China

The Chinese government has denied that it has held talks with the MUD to discuss the future of Venezuela's 'strategic relationship' with Beijing under a future MUD-led government. The MUD's parliamentary leader, Deputy Julio Borges, was in Beijing early this week at the invitation of the Chinese Association for International Understanding (Caifu). Addressing the Caifu, Borges said that Venezuela needed "a profound economic transformation" to exit "the worst crisis in our history" and celebrated "the intention and will on the part of the Chinese Popular Republic to understand the vision of all the actors in Venezuela". According to the Washington-based Inter-American Dialogue's database of China-Latin American financial relations, Beijing provided Venezuela with US$65bn in financing between November 2007 and June 2015, three times the US$21.8bn received by Brazil, the second largest recipient in Latin America of Chinese funds since 2007.

to invoke the Inter American Democratic Charter (IADC) against Venezuela. And a proposal at that plenary meeting by the OAS secretary general, Luis Almagro, to create a 'Group of Friends of the OAS' to mediate, appears to have fallen flat too. Meanwhile, the Brazil-dominated Southern Common Market (Mercosur, of which Venezuela is a member, along with Argentina, Paraguay and Uruguay), this week postponed indefinitely a scheduled July heads of state summit to discuss Venezuela, which, rather ironically, is due to take over the rotating Mercosur pro-tempore presidency from Uruguay for the second half of the year.

In this context, the US government now appears to be exerting some unilateral pressure, which Obama has long hesitated to do, preferring to acquiesce to the region's demand to manage its own affairs. After Secretary of State Kerry and the Venezuelan foreign minister, Delcy Rodríguez, announced in early June, unexpectedly, a fresh diplomatic effort to repair ties between the two countries, which have been without ambassadors since 2010, the Under Secretary of State for Political Affairs at the US State Department, Thomas Shannon, went to Caracas last week. Ahead of his arrival, the US State Department made clear, however, that his mission was considerably broader than bilateral talks. "The main purpose is to have a series of discussions about the social, economic and political challenges in Venezuela and to try to help foster constructive, meaningful dialogue towards solutions with a variety of groups in the government and outside," the State Department spokesperson, John Kirby, said.

Shannon spent three days on the ground and met with a range of actors including Maduro, the president of the MUD-controlled national assembly, Henry Ramos Allup, and the state governor of Miranda and twice former presidential candidate Henrique Capriles Radonski, who is spearheading the recall referendum campaign. He also met the three Unasur mediators. Upon his return to Washington, Shannon told reporters that internationally mediated talks held outside Caracas could help. "The hope is that this can be used not only to address political differences, but also to create a platform from which both the government and the opposition can ask for help from the international community to address some of the very significant crises that Venezuela faces now", Shannon said. Notably, he added, "It is up to the two parties to determine whether or not the facilitators are the right ones. Our view is that they are at this point". Shannon also said that Venezuela felt "uncomfortable" with the OAS process. "They don't like being called out," he noted.

Clearly, the MUD, which has campaigned hard in the region for punitive OAS action against Venezuela and which is highly suspicions of the Unasur mediation efforts, will not have liked those comments. But the Obama administration is trying to strike a fine balance. By engaging directly with Maduro at the highest level via Shannon, it may be hoping to make it more difficult for Maduro to rail against the US and accuse it of seeking to overthrow him if the referendum does go ahead and proves successful.

Obama's sternly delivered comments follow loud MUD complaints about latest 'delaying tactics' by the national electoral council (CNE), which has said it will require up to four weeks (or more precisely, "20 working days") to 'review' the 197,000 new electronically-validated referendum petition signatures. The MUD's window to hold the referendum before 10 January 2017, which if successful would trigger fresh elections that the MUD would expect to win, is beginning to look tight. In the event of a referendum beyond that date, the vice-president would take over and see out the final two years of the six-year presidential term, leaving the left-wing ruling Partido Socialista Unido de Venezuela (PSUV) in power until the general election in late 2018. But with sympathisers in control of every state institution (bar the legislature), including the CNE, the attorney general's office and the supreme court, the Maduro executive has almost endless legal means at its disposal to thwart the opposition – and ultimately, there is very little outsiders can do to contest that.

BRAZIL | POLITICS

Rousseff cleared over creative accounting measures

Impeachment may be a political process, but it requires some legal grounding. The case against the suspended president, Dilma Rousseff, sustained a blow earlier this week following the publication of a technical study into whether she was actually guilty of the so-called 'peddle-pushing' measures that constitute a 'crime of responsibility' under Brazilian law and a justification for her removal from power. In fact, the experts from the court of accounts (TCU) found no direct evidence that Rousseff authorised the transfer of treasury debts onto the books of state-backed banks. Only a handful of federal senators need to be persuaded that Rousseff is innocent for her to return to power. Though this still looks unlikely, the report has given the ousted president a glimmer of hope.

This inquiry went beyond the technical study realised in the federal congress ahead of the first impeachment vote. The impeachment commission in the lower chamber rejected Rousseff's defence request to conduct such a forensic analysis of government documents. But following an appeal to the supreme court, Rousseff's lawyers succeeded in submitting the study to the senate's impeachment commission. It is an important triumph for them: earlier they failed to persuade the court to allow damning telephone conversations between Rousseff's enemies, which suggested her removal was a necessary precursor to ending the corruption-related investigation 'Operation Car Wash', as part of their defence strategy.

Other questions

While the analysts may have cleared Rousseff on the specific charges of the 'peddle-pushing' measures, she did not receive a completely clean bill of health. Diego Prandino Alves, the budgetary consultant who led the TCU task force, pointed out that there were indications that Rousseff had signed decrees authorising spending measures worth up to R$2.5bn (US$773m) in 2015 without congressional approval. Constitutional experts are divided as to whether this represents an impeachment-worthy offence.

In the end, senators' decisions may come down less to technical questions about Rousseff's culpability, and more to do with their perception of their own, and possibly the nation's, best interests. The real question will be what Interim President Michel Temer can offer to ensure the two-thirds' vote he needs to ensure Rousseff's defenestration, or vice versa. Another factor playing on the senators' mind may be governability. It seems hard to imagine that Rousseff could govern effectively should she return to power. Indeed, the suspended president herself appears to acknowledge that by hinting in recent interviews that she would back a referendum on whether to hold fresh elections should she be returned to office.

Even that option, however, poses more questions than it answers. The referendum would not have any constitutional force and in order for the new elections to take place Temer would have to resign willingly as vice-president and congress would have to vote to dissolve itself. A tall order.

Temer's charms

As such, Temer, despite his formal style, is working flat out to keep senate colleagues on board. In a way that Rousseff never managed, Temer invests

Rising child homicides

In 2013, 29 children aged between 1 and 19 were killed per day in Brazil, according to a new report by the Latin American Faculty of Social Sciences (Flacso). While 1,825 children were killed in 1980, by 2010 that number was 10,520. Young black men are killed at a rate 178% higher than their white counterparts.

time and effort in social events with his political colleagues, including Sunday *churrascos* and informal dinners. One result of this approach appears to be the watering down of new legislation – the so-called 'law of state companies'.

Originally envisaged as a rigorous piece of legislation that would prevent politicians or political advisers from being handed control of Brazil's huge state companies, and ensuring that managers had a high level of expertise, some of the more stringent requirements of the 'law of state companies' have now been scaled back following pressure from senators and deputies.

Once again, Temer is betting on ensuring short-term governability rather than embarking on a more radical effort to improve transparency in government. That may be enough to ensure he finally manages to nail shut the door on Rousseff's return.

Culture wars

On 28 June federal police arrested 14 people during an investigation into an alleged fraud of up to R$180m (US$55.5m) in tax exemptions given to cultural projects over the past 15 years.

The so-called 'Lei Rouanet' has become highly politicised in Brazil, with loud voices on the Right of Brazilian politics demanding an end to the state subsidy of the creative industries at a time of austerity. One of the interim government's first, and most controversial, decisions was to abolish the ministry of culture.

But following a high-profile and international campaign by some of Brazil's most famous artists, the government backtracked and reinstated it. Nevertheless a number of federal ministry of culture buildings, including the one in Rio de Janeiro, remain occupied by opponents of the Temer government, who insist they will not leave until Rousseff is returned to power.

For the most part in Brazil, the nation's most successful artists are champions of the Left, and have played a key role in mobilising popular support for Rousseff. That in turn has led to a vicious backlash among her opponents against many prominent Brazilian artists.

Speaking on 28 June, the new minister for culture, Marcelo Calero, said that the 'Lei Rouanet' "should not be demonised". Operation Boca Livre, the investigation into the abuse of the state subsidy will "strengthen the law", Calero said, but he admitted that "there will always be mistakes". The creative industries in Brazil account for around 2.6% of GDP, employing formally around 900,000 people in 251,000 companies.

According to federal police, part of the blame for the siphoning off of state cash lies with the ministry of culture itself, for its failure to properly oversee the projects it sponsored. Calero himself denied the police's statement and claimed that it was members of the ministry itself that notified the police about the companies that are now subject to investigation.

The 'Lei Rouanet' has been in existence for over 25 years, predating the government of the Partido dos Trabalhadores (PT). Arguably Brazil punches significantly above its weight in culture, particularly in music, therefore it is unlikely that the tax exemption programme will be scrapped, despite strong calls from the Right to do so.

Unemployment

Unemployment reached 11.2% in May, meaning a total of over 11m people out of work, according to the official statistics institute Ibge. From March to May 2016, 1.5m fewer people were in formal employment in comparison with the same period of 2015.

BRAZIL | POLITICS

Temer vetoes plans for further FDI in airlines

Battered stocks in Brazil's struggling domestic airline industry have received a boost following the approval of a bill in the federal congress to allow foreign investors to own up to 100% of shares in these carriers. However, under pressure in the senate, interim president Michel Temer decided to withdraw the proposal, thereby limiting foreign investment in the airline industry to the status quo of 20%. Stocks in Gol and Azul fell accordingly.

The original bill proposed by the government of Dilma Rousseff envisaged an increase from 20% to 49%; it was Temer's idea to open up the entire stake to foreign ownership. Facing an inevitable defeat in the senate, the government decided to withdraw the bill. Various senators from across the aisles expressed misgivings about the idea, in particular as to how it would affect regional carriers. Even Senator Agripino Maia, from the right-wing Democratas party, supported the government's withdrawal. "We need to restructure the Brazilian market before attempting to expand foreign investment," he said.

While politically astute, the change of heart demonstrates the difficulty the Temer government will have in opening parts of the Brazilian economy to foreign investment. All the indications from the new administration are that it seeks to attract foreign investment and privatise as much infrastructure as possible. However, the tactical retreat over airlines is not an encouraging start. Still, it may be that Temer is merely waiting until the fate of Rousseff is finally resolved in the senate before taking on too many controversial issues and vested interests.

BRAZIL | ECONOMY

Real strengthens, inflation still troubling

The Brazilian currency, the real, closed at its highest level against the US dollar for 11 months on 29 June, closing at R$3.22 to the US dollar. Analysts believe the signals given by the new central bank governor, Ilan Goldfajn, that the bank does not intend to intervene in the forex market, nor that it intends to alter interest rates soon, were responsible for the strengthening of the Brazilian currency. Another possible reason for the real's strong performance was the expectation that globally, central banks may adopt stimulus measures to cope with the fallout from the referendum vote in the United Kingdom (UK) to leave the European Union (EU).

Goldfajn

In his first interview since becoming the new central bank governor, Ilan Goldfajn said that the bank had no plans to reduce Brazil's 14.25% interest rates, as it remained determined to keep the inflation target for 2017 at 4.5% (plus or minus 2%).

Speaking on 28 June, Goldfajn reiterated that the real was freely floating. Previously, the central bank had intervened to keep the currency low to boost exports. Analysts also noted the fact that interest rates in the US and Europe may fall in the wake of the so-called Brexit vote means that Brazil's high interest rates become a good opportunity for investors once again.

Inflation

Currently, the central bank is working with two projections. The first is that if it maintains the benchmark interest rate (Selic) at 14.25% and the real stabilises at R$3.45 to the US dollar, inflation will fall to 6.9% by the end of this year, and to 4.7% in 2017. If the bank decides to cut the Selic, inflation will remain at 7% this year, and will be 5.5% in 2017.

Goldfajn did not completely shut the door on this possibility. "Should uncertainty fall, the country-risk diminish and confidence return I have no doubt that the central bank's predictions will come down," he said.

The central bank national monetary council (CNM), comprising the finance minister Henrique Meirelles, the planning minister, Dyogo Oliveira, and Goldfajn himself, is due to meet on 30 June to decide whether to stick with the 4.5% inflation target for 2017. At its peak last year, inflation reached 10.67%, its highest level for 12 years. At present, inflation remains stubbornly high. Wholesale, consumer and construction prices rose 1.69% in June after a 0.82% advance in May, according to data from the Fundação Getulio Vargas.

Macri advances with adjustment

Despite the continuous domestic and global economic volatility, the Argentine government led by President Mauricio Macri is decisively moving ahead with the implementation of economic measures designed to fix the macroeconomic imbalances it inherited from the previous administration led by Cristina Fernández (2007-2015). But this is producing discontent as the domestic economy continues to suffer from the short-term negative effects of the measures.

Following its successful moves to lift the foreign currency and exchange rate controls imposed by the Fernández administration and settling Argentina's long-running debt dispute with its 'holdout' bondholders (those that still demanded full payment for their 2001 Argentine bonds) earlier in the year, the Macri administration announced plans to take yet another step to fully restore Argentina's standing in international financial markets and improve its finances this week. On 28 June Argentina's finance ministry announced a plan to buy back the GDP-linked bonds, which pay out a higher coupon whenever Argentina posts positive economic growth, issued by the country in 2005-2010 as part of the debt restructuring programme designed to help it come out of the 2001 debt default crisis.

The statement said that the operation, under which the government would offer the holders of these bonds a one-off chance to sell them back to the Argentine treasury for a set price before the end of the year, will help to ease Argentina's debt burden and free up additional funds to plough back into the faltering domestic economy. The ministry calculated that the operation would help the treasury save some US$9.4bn as the GDP-linked bond contingent debt amounted to US$13.83bn in April.

Interestingly, the announcement came despite the fact that Argentina is expected to post negative GDP growth this year, partly as a result of the major macroeconomic adjustment implemented by the Macri administration. The International Monetary Fund (IMF) forecasts that Argentina's GDP will contract by 1% this year. The Macri government has yet to release official GDP figures since it decided to overhaul the widely discredited national statistics institute (Indec). But a recent poll by local economists conducted by *Reuters* found that the consensus first quarter growth projection is -1.2%.

However, government officials have repeatedly said that the changes in economic policies will start to produce positive results in the second half of the year, as the initial shock of the economic adjustment measures subsides. That the bond buyback announcement came a day before Indec is due to release its new quarterly economic figures, suggests that the government is confident that these will be positive.

But there are few signs elsewhere that Argentina's domestic economy has stabilised. Last week, on 23 June, the value of the Argentine peso against the US dollar fell by 2.6% to trade at Ar$14.45/US$1. This was mostly explained by the general volatility currently gripping international financial markets as a result of the uncertainty produced by the United Kingdom's vote to leave the European Union. This has forced the central bank (BCRA) to intervene in the local currency market to try to manage the volatility.

But the net effect of all this is inflation-inducing and is contributing to Argentina's domestic inflation rate remaining high. The Indec's brand new

FPV desertions continue

In positive news for Argentina's President Mauricio Macri and the ruling Cambiemos coalition, more national legislators elected for the Frente para la Victoria (FPV, Kirchneristas) hard-line faction of the main opposition Partido Justicialista (PJ, Peronists) have decided to desert the party this week in the wake of ever growing corruption scandals implicating prominent figures from the previous FPV administrations. Three federal deputies and a senator quit the FPV last week in the wake of the arrest of the former deputy public works minister José López (2003-2015) [WR-16-24]. On 23 June they were followed by six other federal deputies, who announced that they would now form the 'Peronismo para la Victoria' bench. The FPV has now lost 21 federal legislators since February.

official inflation figures, released on 16 June, came in at 4.2% for the month of May. The high level of inflation is one of the main drivers behind the public discontent as it continues to eat away at the public's purchasing power. Indeed the government's decision to conclude the collective salary negotiations ahead of the second half of the year, which resulted in average increases of 40% compared to an average increase of 30% in the first half, has left some trade unions dissatisfied.

The 40% average increase is higher than the 20%-25% increase advocated by the government. But still unions led by the Central de Trabajadores de la Argentina (CTA), headed by Pablo Micheli, staged demonstrations on 28 June to demand additional salary increases. Meanwhile oil workers' unions in eight of the country's 10 oil-producing provinces began a strike on 27 June in demand of additional salary increases. This backdrop has helped to push Macri's disapproval rating up. A national poll by Poliarquía Consultores, released on 26 June, found that Macri's disapproval rating had increased by 18 percentage points to 43% in June since Macri assumed office in December 2015, while his approval rating fell by 15 percentage points to 56%.

Temer

In his speech announcing an increase in the Bolsa Família, the interim president, Michel Temer, praised the conditional cash transfer programme, calling it "successful" but also expressing the hope that it would eventually no longer be necessary. "The first social right of the citizen is employment," Temer said.

TRACKING TRENDS

ARGENTINA | **New infrastructure investment plan.** As part of its efforts to stimulate the domestic economy, the Argentine government announced an Ar$100bn (US$6.69bn) public works investment plan on 23 June for the next four years.

Paralysis in public works is one of the major factors in the current domestic economic slowdown, with economists close to the government suggesting that up to 50,000 jobs might have been lost as a result. But the government has now presented its concrete proposal to build new roads, railways, the development of a Metrobús bus-rapid transit system in provincial cities and the overhaul of the national drinking water distribution and sewage infrastructure network, all of which it intends to begin next year.

In addition the central bank (BCRA) has also been pursuing looser monetary policy in support of the domestic economy. On 28 June the BCRA decided to cut its benchmark Lebac interest rate by 75 basis points for a second consecutive week to 30.75%.

BRAZIL | **Bolsa Família, judiciary receive a boost.** Starting from July, the value of the basic 'Bolsa Família' conditional-cash transfer to the poorest Brazilians will increase by 12.5%. In the announcement on 29 June, the interim president, Michel Temer, said that the line of extreme poverty would be shifted from R$77 (US$24) to R$85, and the poverty threshold, from R$154 to R$170. The total cost to government coffers will be R$2.5bn per month.

The same day the federal senate approved a pay rise of approximately 41% for members of the judiciary and the public ministry, the body of independent prosecutors.

The measures will cost at least R$25bn from now until 2019; in 2016 alone, the pay increase will add another R$1.69bn to the fiscal deficit. The increase will be scaled across eight stages from June 2016 to June 2019.

Relative to GDP, the Brazilian judiciary is four times as expensive as that of Germany. Brazil's judicial system is also massively overloaded: every judge has to cope with an average of 1,700 cases per year, according to a recent study by academics from the Universidade do Rio Grande do Sul (UFRGS). In comparison, Italian judges deal with 876; French ones, with 455. Every legal ruling costs, on average, R$2,200, compared with around R$2,000 in Portugal or R$1,600 in Italy.

The author of the study, however, claimed that the legacy of the period of military rule, the long period of legal uncertainty that followed, and Brazil's continuing stark socio-economic inequality were some of the drivers for the high cost of justice in the country.

MEXICO | POLITICS

Peña Nieto pursues new tack

There are signs that the federal government led by President Enrique Peña Nieto is learning from past mistakes. The decline in Peña Nieto's popularity dates back to his government's slow reaction to the abduction and presumed murder of 43 students in Iguala, Guerrero, in September 2014, and failure to prioritise a thorough investigation into the incident. By contrast, the interior minister, Miguel Ángel Osorio Chong, responded immediately to the fatal clashes between police and protesters from the teachers' union Coordinadora Nacional de Trabajadores de la Educación (CNTE) in the municipality of Asunción Nochixtlán in the southern state of Oaxaca on 19 June. Osorio Chong launched a dialogue process with the CNTE to restore calm, and promised an investigation into the eight deaths, with the active participation of relatives of the victims.

Osorio Chong will hold a meeting on 30 June with a 25-strong commission made up of relatives of the victims of the violence in Asunción Nochixtlán and people directly affected by the clashes with the police. The aim of the meeting, from the government's perspective, is to provide assurances of a thorough investigation into the violence and compensation.

The trouble is that in its swift determination to be seen to be caring, open and transparent, the government indirectly raised expectations within the CNTE that it would be prepared to revise its education reform when it has no intention of so doing. When this became apparent after the opening two days of meetings with Osorio Chong, it caused a fresh outbreak of protest action. The CNTE erected roadblocks again in Oaxaca, including Asunción Nochixtlán. Representatives of the private sector subsequently met separately with Osorio Chong to demand the restoration of the rule of law in Oaxaca. The president of the Consejo Coordinador Empresarial (CCE), Juan Pablo Castañón Castañón, said that the protests of the last week had caused economic losses of M$1.7bn (US$92m) and hotels were at just 5% occupancy.

If anything the challenge in Chiapas is currently even more acute. Not only have the two main arteries through the state, the Pan-American and Inter-American highways, been blocked in various places but the three border crossings between Mexico and Guatemala have also been occupied by protesters for the first time since strike action began in Chiapas last May. On 27 June CNTE activists set up 18 roadblocks in 12 municipalities in eight of the state's nine regions. After three days they agreed to lift 10 of the roadblocks and to allow the passage of fuel tankers and vehicles carrying local produce but not transnational trucks. They are also still occupying the border crossings.

Fabio Martínez, the archbishop of the state capital Tuxtla Gutiérrez, called for dialogue to be renewed, while various bishops urged the government to hold a genuine dialogue over its education reform, insisting that it had returned the transparency law to the federal congress at the behest of business and should do the same for the teachers.

President Peña Nieto does not appear to be in any mood to budge. Speaking from Ottowa, where he is attending the North American Free Trade Agreement (Nafta) Leaders' summit this week, Peña Nieto stressed that while his administration was always open to dialogue to try and overcome the tension that leads to violence, "the law is not subject to negotiation".

López Obrador

Andrés Manuel López Obrador, the leader of the radical left-wing Movimiento Regeneración Nacional (Morena), addressed between 20,000 and 30,000 people marching in support of the CNTE in Mexico City on 26 June. López Obrador has latched onto the CNTE protests in a bid to build momentum ahead of a third bid for the presidency in 2018. He called for President Peña Nieto to form a transition government to restore social peace between now and the presidential elections, and demanded that the interior minister, Miguel Ángel Osorio Chong, resign over the fatal clashes in Oaxaca.

NICARAGUA | POLITICS & ELECTIONS

Fears grow over a one party state

Longtime opposition figure Eduardo Montealegre recently confirmed that the Coalición Nacional por la Democracia (CND) coalition would not take part in the 6 November general elections. His announcement follows the decision by the supreme court (CSJ) earlier this month to strip him of leadership of the Partido Liberal Independiente (PLI), the CND's main party, and hand it to Pedro Reyes Vallejos – who Montealegre claims is a collaborator of President Daniel Ortega and his Frente Sandinista de Liberación Nacional (FSLN) party [WR-16-23]. The withdrawal of the main political opposition force from the contest deals a further credibility blow to an electoral process already under considerable criticism following the refusal by Ortega, who is widely expected to secure a third consecutive election, to allow electoral observers to oversee the vote.

In a press conference on 16 June Montealegre said that the CSJ ruling had "robbed the Nicaraguan people of the right to vote freely". He told reporters that instead of participating in the election, the CND would promote a movement, 'Citizens for Liberty', aimed at recovering the right to free, honest and competitive elections in Nicaragua, with the participation of opposition forces and international observation. Reyes has since been confirmed as the PLI presidential candidate (on 24 June), replacing the CND's initial line-up of national PLI deputy Luis Roberto Callejas and Violeta Granera, the leader of the civil-society grouping Movimiento por Nicaragua (MpN), as his running mate.

The ruling by the FSLN-controlled CSJ against Montealegre continues to attract concern from other sectors. Following statements by the main private-sector lobby, Consejo Superior de la Empresa Privada (Cosep), and human-rights groups like Centro Nicaragüense de Derechos Humanos (Cenidh), most recently, on 14 June the Episcopal Conference of Nicaragua (CEN) issued a statement warning that any "intent to create conditions for the implementation of a single party regime…is harmful for the country".

Tensions with the US

On 23 June the media reported that the 'Citizens for Liberty' movement had presented a letter to the US embassy in Managua outlining the alleged abuses by the Ortega government in relation to the elections.

Washington has already expressed concern about Ortega's refusal to invite international observer missions from the likes of the Organization of American States (OAS) and European Union (EU), which have previously sent delegations to oversee the vote. Instead the national electoral authority (CSE) has said that "electoral specialists" from several Latin American countries including Argentina, Uruguay, Chile, Ecuador, Bolivia, and El Salvador among others would observe the elections.

The US concern regarding the elections comes as bilateral tensions are on the rise for other reasons – namely the decision by the Ortega government on 15 June to expel three US officials. In a press briefing on 16 June US State Department spokesperson John Kirby described the move as "unwarranted and inconsistent with the positive and constructive agenda that we seek with the Government of Nicaragua…Such treatment has the potential to negatively impact US and Nicaraguan bilateral relations, particularly trade, and we've conveyed our strong displeasure to Ambassador Francisco Campbell here, the Nicaraguan ambassador to the United States."

The FSLN government, however, issued a response, insisting that it was just two officials who were expelled for performing functions "without the knowledge and coordination of our authorities".

Latest poll

On 27 June pollster M&R Consultores presented its latest survey on voter intentions ahead of the 6 November general elections. According to the survey, which interviewed 2,000 people and had a 2.24% error margin, 65.1% said that they would vote for the Frente Sandinista de Liberación Nacional (FSLN) while the Partido Liberal Independiente (PLI) and Partido Liberal Constitucionalista (PLC) of disgraced former president Arnoldo Alemán (1997-2002) were tied on 5.6%.

Canal expansion project unveiled

President Juan Carlos Varela has inaugurated the US$5.3bn Panama Canal expansion project that will allow the passage of post-Panama ships through the Canal. The completion date for the project, which began in 2007, had been pushed back from October 2014 due to various factors, including a dispute over cost overruns with Grupo Unidos por el Canal (GUPC), the multinational consortium in charge of constructing the third set of locks – the expansion plan's biggest project [WR-14-01]. The completion of the project and prospect of growth and investment is a timely boost for Varela whose approval ratings remain low. This stems from factors including a health crisis forcing the resignation of his health minister, as well as transparency-related concerns due to scandals like the 'Panama Papers', the biggest leak of secret information in history, and the US government's recent blacklisting of one of Panama's most important business groupings, the Waked family [WR-16-18].

At a ceremony on 26 June attended by some 20,000 people, with official delegations from more than 60 countries, a container vessel of China Ocean Shipping Company (Cosco), 'Andronikos', which has a maximum capacity of 9,400 twenty-foot equivalent units (TEUs), became the first ship to transit the expanded Canal. The new locks are 427m long, 55m wide and 18.3m deep, allowing vessels up to 366m long, 49m wide and 15m deep to pass.

A 22 June press release by the economy & finance ministry cites deputy finance minister Eyda Varela de Chinchilla as saying that while contributions from the Panama Canal are estimated at more than US$1bn per year, the expansion plan will boost this by 15%. A press release by the International Monetary Fund (IMF) issued 10 days earlier was also positive regarding the impact on Panama's growth. The IMF statement, which followed the conclusion of an Article IV consultation with Panama on 23 May, notes that GDP grew by 5.8% in 2015, and growth is projected to remain around 6% in 2016 and over the medium term – supported by the expected opening of the expanded canal and lower fuel prices, which will counterbalance the effects of slowing global growth and US dollar appreciation. The IMF press release also notes that Panama has had the highest average growth in the region over the past decade and is expected to continue to have one of the strongest growth rates in Latin America, "set against a backdrop of low inflation, a stable financial system, and a declining current account deficit".

Varela's popularity on the slide

The most recent survey by pollster Dichter & Neira released on 21 June showed the popularity of Varela – who took office for a five-year term in July 2014 – on just 37%, his lowest approval rating of the past 12 months and down from 57% in July 2015.

The survey, which interviewed 1,200 people across the country bar the *comarcas* (indigenous administrative regions) and Darién jungle region, showed that just 19% of respondents thought the government – which has been struggling to restore credibility to the country in the wake of the 'Panama Papers' and the US government's blacklisting of the Waked family – operated in a transparent manner. This was again the lowest rating of the past 12 months and down from 34% in July 2014.

Also contributing to the government's declining popularity is a swine flu (H1N1) outbreak that has claimed 31 lives according to the most recent health ministry press release (24 June). The crisis, which has sparked a panicked rush for vaccinations, forced the resignation on 14 June of Health Minister Francisco Javier Terrientes who Varela has since replaced with his deputy, Miguel Mayo.

FDI

On 15 June the United Nations Economic Commission for Latin America and the Caribbean (Eclac) released its latest report on foreign direct investment (FDI) to the region which notes that in 2015 FDI flows to Panama rose by 17%, and stood at US$5.04bn. This is a record high, positioning the country as the leading recipient in Central America, and the seventh in Latin America and the Caribbean. The report notes that "during 2016, the work of widening of the Panama Canal will be completed and a number of firms involved in Canal-related activities have made major investments to expand their capacities".

Quotes of the week

"At a time that seems dominated by the discord and disintegration brought by 'Brexit'...what we are doing is constructing realistic, flexible and pragmatic integration."
Chile's foreign minister Heraldo Muñoz kicks off the Pacific Alliance summit in Puerto Varas, in the country's southern province of Llanquihue, on 29 June by warning against the isolationist path.

"We have reached the end of 50 years of death, attacks and pain. This is the end of the armed conflict with the Farc."
Colombia's President Juan Manuel Santos.

"I greet the proclamation of Pedro Pablo Kuczynski as the president of the Republic."
Peru's defeated presidential candidate Keiko Fujimori uses Twitter to recognise the victory of her rival, leading detractors to question her family's obsession with technology as the purveyor of important news (her father Alberto Fujimori having famously resigned as president in 2000 by Fax).

POSTSCRIPT

US chain opens first of three Cuban hotels

The US hotel chain Starwood Hotels & Resorts Worldwide has announced the opening of the newly re-branded 'Four Points' hotel in the Miramar district of Havana, under a deal signed last March to operate three hotels on the island, marking the first time that a US hotel company will have a presence on the island since the 1959 Cuban Revolution. The 'Four Points' hotel, previously the 'Quinta Avenida', is owned by the Cuban military's tourism company, Gaviota.

The deal also includes the 'Hotel Inglaterra', located near the Gran Teatro and Capitolio, one of the oldest hotels in the capital, which is set to open after a major refurbishment on 31 August. Starwood will enter into a similar partnership with the hotel's owner, Gran Caribe, to refurbish and operate the hotel, which will become part of Starwood's 'Luxury Collection'. The third deal is with the 'Hotel Santa Isabel', overlooking Havana harbour, for which Starwood signed a letter of intent with the state company Habaguanex. This will also become a 'Luxury Collection' Starwood hotel.

The refurbishments will create high-end hotels clearly aimed at the fast-developing US 'visitor' market. General US tourism remains prohibited under the US economic embargo on Cuba, but US citizens can travel to Cuba under one of 12 permitted travel licences, which include things like cultural, artistic and educational exchanges. Now that US travellers can self-certify at airport check-in desks the purpose of their visit to Cuba, tourism to the island is effectively taking place in all but name.

Along with the many charter flights operating from US airports (which must, however, be booked via a travel agency), as of September six US airlines will begin operating scheduled services to Cuban airports (albeit not yet to Havana international airport), making it much easier (and possibly cheaper) to travel to Cuba. Also facilitating US travellers, the Florida-based Stonegate Bank has issued the first US credit card operable in Cuba (it can be used at state-run businesses and some high-end private restaurants with point-of-sale devices). To date, US travellers have had to bring cash and pay a 10% currency exchange commission at state-run banks or *casas de cambio*.

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