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## Scandal plunges Brazil back into political crisis

The Brazilian government is on the verge of collapse after the supreme court opened an investigation into President Michel Temer, following accusations of passive corruption, obstruction of justice and conspiracy. Regardless of whether the president himself survives, the government's reform agenda is now severely jeopardised with potentially disastrous consequences for an economy that appeared to be on the way out of its worst recession on record. "The Temer government is dead; what remains to be seen is how it will be buried," MCM Consultores, a financial consultancy, wrote in a note to clients on 18 May.

### Accusations

On the evening of 17 May the newspaper *O Globo* published a report that Joesley and Wesley Batista, the owners of the world's largest meat producer, JBS, had secretly recorded President Temer effectively endorsing payment of hush money to Eduardo Cunha, the former speaker of the federal lower chamber of congress instrumental in the impeachment of his predecessor, Dilma Rousseff (2011-2016). Cunha is currently in prison on corruption charges.

The next day, around US\$150bn was wiped off the value of the São Paulo stock exchange (Bovespa) as the supreme court made public its ruling that there was enough evidence to launch an inquiry into the president. The currency also dropped dramatically as investors fled, fearing the government's plans to put Brazil's public accounts in order were now at an end. Temer has repeatedly denied wrongdoing, and in a televised address on May 18 he insisted he would not resign and that an investigation would clear him of wrongdoing.

When the tape recording subsequently emerged, Temer appeared to gain some respite from the central charge against him. The audio is extremely poor quality and the claim that it shows that he had endorsed payments to Cunha is highly questionable. Nevertheless, it does appear to show that Temer remained silent while Joesley Batista boasted of buying off a judge and prosecutor to ease his legal problems. The presidential palace, Planalto, has also struggled to explain why Temer agreed to meet Batista, given that he was under numerous investigations, and why he failed to register the meeting in the official visitor log.

### Allies

So far, however, the government's allies are largely sticking with Temer. Three smaller parties quit the ruling coalition, as did one cabinet minister. But Temer's main allies, the Partido da Social Democracia Brasileira (PSDB) and Democratas (DEM), have publicly adopted a wait-and-see approach. Local media reports suggest that they are currently assessing who might replace Temer, and continue with his reform agenda, until the next general elections in October 2018.

## **JBS plea**

Brazil has been scandalised by the plea bargain deal offered to the Batista brothers, owners of the world's largest meat producer JBS. Despite telling prosecutors they had given over R\$600m (US\$184m) in off-the-books campaign donations to 1,800 politicians over the past 15 years, they face no jail time, have paid only a relatively minor fine, and have been allowed to leave the country. In the face of severe public criticism, prosecutors have been forced to defend the deal, but the supreme court has indicated it may be revised.

Speaking at an event in the city of São Paulo on 23 May, Finance Minister Henrique Meirelles said that the reform agenda would continue “regardless of anything”. But it is impossible to separate entirely the economic and the political. On 25 May, Brasília witnessed some of the most violent scenes in its history. Tens of thousands of protesters, organised by the main labour unions, demonstrated against the reform agenda of the Temer government and demanded its ouster. Amid thick clouds of tear gas fired by police on horseback, protesters set fire to the agriculture ministry and ransacked other government buildings. Temer decided to authorise the deployment of the armed forces to restore order, prompting widespread outcry from lawmakers acutely conscious of Brazil's dark history with the military.

## **What happens next**

Other than resignation, there are three other threats to Temer's continuation in power: impeachment; an electoral court (TSE) ruling; and prosecution by the supreme court (STF). At least nine impeachment requests have been mooted against the president, mainly by opposition lawmakers, but also by Brazil's influential bar association, the OAB. But Rodrigo Maia (DEM), the speaker of the lower chamber, would have to accept an impeachment request for it to be debated and so far he has appeared extremely loyal to Temer. Even if congress did decide to impeach Temer, the process would likely be slow and painful. Rousseff's impeachment lasted around eight months.

Off-the-record, some of Temer's allies believe the TSE ruling may be the best way out of the political crisis. On 6 June the TSE is due to rule on whether to invalidate the results of the 2014 election, on the basis that the campaign was illegally financed. If it scraps the result, Temer could eventually be removed from office, although he would have the right to appeal. Until recently, most analysts believed the TSE would be reluctant to take such a course of action, given its disastrous political consequences; now, however, it may prove the quickest way to lance the boil.

A final possibility is that the STF decides to try Temer. At present the chief public prosecutor is building a case against the president. If the STF accepts the evidence, Temer would become a 'reú' or defendant, and be suspended from the presidency for 180 days. However, the STF could only try Temer with the approval of two-thirds of congress. Public protests, of course, may influence the outcome. To date, only the Left has organised protests against the government; right-wing groups such as Vem Pra Rua and Movimento Brasil Livre, which were key in the demonstrations that sustained the pressure on congress to impeach Rousseff, have yet to call out their supporters.

## **After Temer**

If the president leaves office, the constitution states that he should be replaced by the speaker of the lower chamber – in this case Maia – for a 30-day period before a joint session of congress elects a new president. Names rumoured to be considered by government allies include Meirelles, former STF president and former justice minister Nelson Jobim and current STF president Cármen Lúcia Antunes Rocha. Opposition lawmakers are clamouring for direct general elections as soon as possible, but this seems unlikely as it would require a constitutional amendment with three-fifths' approval in both chambers of congress.

Temer's best hope of clinging to power rests in presenting any alternative to his rule as chaos. Tacitly, it may also depend on the realisation that if he goes, cabinet ministers and other allies would lose his protection and their privileged legal status, potentially facilitating criminal charges in lower courts. Before the latest scandal there were signs of light at the end of the tunnel; now Brazil looks set to fumble in the dark for many months to come.

## Moreno picks up baton from Correa

Lenín Moreno was formally inaugurated as Ecuador's head of state on 24 May in a ceremony held in the national assembly, where the ruling Alianza País (AP) has a reduced majority. In a conciliatory speech Moreno promised to govern for all. He served notice of a significant change in style from the combative, personalist governance of his predecessor Rafael Correa: "I prefer those European systems where the president goes unnoticed." He spoke at length about his six-pronged 'cradle to the grave' social welfare programme 'Toda una vida', vowing to focus on eradicating extreme poverty. In a departure from traditional protocol he swore in a downsized cabinet in a ceremony held outside the presidential palace Carondelet to symbolise how he intends to govern: transparently in full view of the people.

President Moreno maintained that the watchwords of his government would be "plurality, unity and dialogue". He announced the termination of the weekly broadcasts, Enlace Ciudadano, during which Correa would outline the achievements of his government, and habitually excoriate critics. Correa has delivered 523 Enlaces over the last decade, held in different locations around the country and lasting for three or four hours each. Moreno said he would find another way to keep the people informed.

Discontinuing the Enlaces is a firm indication of Moreno's change of style. Upon leaving power, Correa said his biggest adversary had been "the corrupt and mercantile press". Moreno is looking to reduce tension with the press, promising a "fresh" and "fluid" relationship, and mooted a reform of the contentious communications law. Correa had said the Enlaces were necessary to inform the people of the 'truth' as they would not find it in the press.

In addition to the switch in style, Moreno also revealed some changes of substance. In keeping with a commitment to government austerity, he announced a restructuring of the executive, including the elimination of six coordinating ministries – social development; construction, employment and competitiveness; knowledge and human talent; economic policy; strategic sectors; and security – and the merger of a few state entities. Moreno swore-in 23 ministers and 12 secretaries to his cabinet, down on the 32 serving under Correa but still much larger than the average of 14-15 ministers before 2007.

In addition to some streamlining of the state, Moreno also revealed a planned re-orientation. He abolished Plan Familia, a family planning initiative set up in 2015 which had been criticised for overreliance on inculcating moral and religious precepts rather than sexual education. Moreno said teenagers should enjoy greater freedom, with responsibility, rather than be subjected to restrictive policies imposed by an overbearing state.

The new-look cabinet is a mélange of adherents to the Citizens' Revolution, technocrats, representatives of social sectors and, in a sign of Moreno's professed commitment to pursue consensual politics, an opposition politician. Moreno appointed Iván Espinel, who ran for president against him for Fuerza Compromiso Social on a platform of zero tolerance for corruption, at the helm of his new economic and social inclusion ministry. Despite promising to crack down on corruption, the opposition questioned Moreno's sincerity given that his vice-president, Jorge Glas, has been implicated in wrongdoing at the state oil company Petroecuador. Overseeing the hydro-

### Cabinet appointments

President Moreno tapped Carlos de la Torre, the director of the Instituto de Investigaciones Económicas at the Pontificia Universidad Católica del Ecuador, to be his finance minister. Pablo Campana, the president of a real estate company, Millenium Partner Corporation, takes over as foreign trade minister. Paúl Granda, the former mayor of Ecuador's third largest city of Cuenca, becomes public works minister.

## Violence begets violence

There is growing concern that the increasingly-widespread violence in Venezuela could lurch beyond the control of either the government or the main opposition political coalition, Mesa de la Unidad Democrática (MUD). Footage of a man being set alight by a lynch mob of anti-government protestors, as well as fatal unrest in the state of Barinas (the home state of the late president Hugo Chávez) has sparked fears of a slide towards anarchy in the country.

carbons sector now will be one of several technocrats appointed to the cabinet. Carlos Pérez, a former oil executive who was Ecuador's country manager for Halliburton, the US oil services company, for 13 years, will be the new hydrocarbons minister.

Moreno retained eight ministers from Correa's cabinet, including Fánderson Falconí, who picks up the education portfolio, and María Fernanda Espinosa, who will be foreign minister. Moreno offered few clues about his foreign policy priorities, other than that he favoured South-South cooperation.

Moreno provided greater clarity about his government's economic direction. He underscored his commitment to dollarisation, stressing that there would be no parallel currency. This appeared to be a direct response to his defeated rival in the second round of presidential elections, Guillermo Lasso, of the centre-right opposition Movimiento Creo. Lasso re-emerged on 22 May after disappearing beneath the radar for several weeks, urging Moreno to express his commitment to retaining the US dollar, adopted as the national currency in 2000. Lasso also called on Moreno to undertake a tax reform to ensure "the minimum of confidence", and improve juridical security for private investment and employment.

## VENEZUELA | POLITICS

### Taking Ortega off the air

Senior government officials including the interior, foreign and communications ministers have launched fierce invectives against the attorney general, Luisa Ortega Díaz, whose criticisms of the government led by President Nicolás Maduro have exposed, very publicly, the divisions within the ruling Partido Socialista Unido de Venezuela (PSUV).

In a statement broadcast on the state channel VTV, Interior Minister Nestor Reverol complained that "the inaction" of the public ministry, under Ortega Díaz, in response to the "spiral of violence" fomented by the Venezuelan opposition in its effort to provoke a coup, had created "a climate of impunity", and "anxiety" in the population. Reverol accused the public ministry of "belittling" the police and the armed forces, and of "casting doubt on their honour", adding that the truth would come out in the "corresponding courts". It was unclear if that was a direct threat against the attorney general.

On his television programme, Diosdado Cabello, number two in the PSUV, apologised for the fact that Ortega Díaz was appointed on his watch, when he was president of the national assembly. "We Chavistas are neither assassins nor repressors," Cabello declared, "but her 'friends' are". Foreign Minister Delcy Rodríguez tweeted that "nothing and no-one can detain the truth about the hate crimes committed by opposition political factors".

The question is whether these comments are the prelude to the removal of the attorney general. While this would constitute a very provocative move by President Maduro, he is becoming ever bolder in his radicalisation. At this stage, it would come as no surprise to see Ortega replaced.

Not shown on VTV was Ortega's latest public statement, in which she again took the security forces, the courts and the government to task for their response to the ongoing wave of public protest across the country, in which over 50 people have now died (since early April).

### Ortega's complaints

Ortega's most damning comments included her statement that that a 20-year-old university student, Juan Pablo Pernalette, was "killed" by the Bolivarian



## Constituent assembly

As expected, the selection process for the constituent assembly amounts to gerrymandering and is so convoluted as to be next to impossible to explain. Basically, the assembly will comprise 540 members, 364 elected from 'territorial bases' (i.e. municipalities) and 176 'sectoral' representatives. Rural municipalities have been assigned disproportionate weight in the territorial bases, a clear effort to further favour the government.

National Guard (GNB) by the direct launch of a tear gas bomb against his person, which, she pointed out, contravenes national and international law. The Maduro government had stoutly denied that the GNB was even at the scene – Ortega said she had several witness accounts to prove otherwise.

Ortega repeated her previous complaints about excessive repression by the security forces, reporting 55 deaths to date (including four minors), of which 52 were civilians and three were officers. In all 1,000 people have been injured, 771 civilians and 229 officers. Over half of the injuries (500) were caused by the security forces, she noted. She added that 2,664 people had been detained for crimes ranging from murder to public incitement, robbery and looting, but that not all those detained were actually responsible.

Ortega called on the security forces to stop the activity of 'armed civilian groups', widely understood as a reference to the armed and violent government support groups known as 'colectivos'. She said there were 16 investigations open into these groups for operating outside of the law. In addition, there were 37 orders against police and military officers for various crimes including homicide, cruel treatment, the unjustified use of weaponry, and the unwarranted privation of liberty. She questioned why the security forces sometimes apparently failed to turn up to deter violence and looting.

The attorney general was completely clear that submitting civilians to military justice was contrary to the principles and mandates of the constitution. This directly contradicts comments by the defence minister and head of the army, Vladimir Padrino López, who defended this recent practice as constitutional and said he had discussed the matter with Ortega. Ortega said that seven investigations were open into the use of military justice in ordinary justice cases. Finally, Ortega strayed into politics, noting that the social discontent was caused by "the economic crisis" and "scarcity". She warned of an escalation in violence without remedial measures.

### Loading the constituent assembly

If Ortega was raising eyebrows in her latest appearance, the head of the national electoral council (CNE), Tibisay Lucena, was equally controversial in hers. After just five hours' consideration, Lucena declared 'unanimous' CNE support for Maduro's proposed rules for choosing members for his constituent assembly initiative, and proceeded to schedule the selection process for the end of July (*see sidebar*).

A supreme court (TSJ) magistrate, Danilo Antonio Mojica Monsalvo, later published a video on *YouTube* stating that the proposed constituent assembly "is not the solution to the crisis". Mojica opined that a constituent assembly could not be convened without prior public consultation (via referendum) and that without this step, it would be of "spurious" legal validity. He called on Maduro to "think carefully". There was also pushback from the CNE's rector, Luis Emilio Rondón, the sole independent figure on the council, who contradicted Lucena's claim of unanimity around Maduro's proposed bases. And in a letter to Education Minister Elías Jaua, appointed by Maduro to oversee the constituent assembly process, Ortega Díaz opined that an assembly was "neither necessary, pertinent, nor convenient".

Lucena also announced that the pending regional elections for state governors would be held on 10 December, a year after they were due. It appears that these will be held concurrently with this year's municipal elections. There is little confidence in the opposition that these polls will actually go ahead. Maduro has been very clear that the PSUV leadership will only contemplate elections when it can be sure of winning. There is also some concern that the new constituent assembly – legitimately or not – could opt to cancel the year-end ballots.

## Peace talks with ELN resume

### Trump backs Colombia peace process?

On 17 May, US President Donald Trump backed the peace process being advanced by the Colombian government. After hosting President Santos at the White House, Trump reaffirmed the US's support for the peace process as well as for the Santos government's post-conflict programmes aimed at combating drug trafficking, coca cultivation, and cocaine production. However, Trump failed to offer a pledge to maintain the current level of US financial assistance for public security programmes in Colombia.

Representatives of the Colombian government and the Ejército de Liberación Nacional (ELN) guerrilla group began the second round of formal bilateral peace negotiations in Ecuador on 17 May. The start of the second round was marked by optimism that the two sides could make progress in the talks but this was tempered by concerns that some of the difficulties that the government led by President Juan Manuel Santos has encountered in implementing the peace deal signed last year with the Fuerzas Armadas Revolucionarias de Colombia (Farc) guerrillas could affect the negotiations with the ELN.

The first round of dialogue between the government and the ELN in Quito ended on 6 April amid frustration about the lack of progress made. Juan Camilo Restrepo, the head of the government negotiating team, complained that the ELN delegation adopted an intransigent stance on some negotiating points, and criticised the ELN's failure to meet some of the conditions demanded by the government for holding the talks, such as the release of all of its hostages and abandoning kidnapping. But in particular, Restrepo lamented that the ELN leadership refused to order a unilateral ceasefire in support of the talks as the Farc had done. Instead, since the establishment of the Quito dialogue table, ELN guerrillas have stepped up their attacks on the security forces and oil infrastructure, as well as on the civilian population.

This offensive has been interpreted by some as an attempt by the ELN to strengthen its negotiating hand. Others see it as evidence of the fact that unlike the Farc, the ELN is more divided over the peace negotiations with the government; and that its leadership appears to have less control over its various fronts than the Farc leadership. Restrepo alluded to this when he publicly called on the ELN to send representatives from all its factions, including the more radical ones ("as the Farc did") to the second round of negotiations. Restrepo's call came just ahead of the start of the 'summit' of Farc and ELN leaders in Havana, Cuba. The unprecedented 9-11 May meeting between the leadership of Colombia's two main guerrilla groups was authorised by the Santos government with the hope that it would help to expedite the Quito negotiations.

At the end of the summit, Colombia's peace commissioner, Sergio Jaramillo, said that the government hoped it would help to bring about a 'complete peace'. But Jaramillo also echoed Restrepo and called for the ELN "not to fall behind" and to speed up the Quito negotiations so that it can start taking part in the implementation of peace. Against this backdrop, the government and ELN negotiating teams, and representatives from the guarantor countries, met with Ecuador's outgoing President Rafael Correa in Quito on 16 May ahead of the start of the second round of negotiations.

Optimism for the second round of talks was dampened by the 18 May ruling by Colombia's constitutional court which found inapplicable provisions in the so-called 'legislative act for peace' package approved by congress and aimed at facilitating the implementation of the peace deal with the Farc. In particular, the constitutional court ruled that aspects of the 'fast track' mechanism for approval of any piece of legislation linked to the implementation of the peace deal exceeds the powers assigned to congress in the constitution. The ruling has sparked serious concerns about the implementation of the peace deal, including the status of the bills already approved under the fast-track mechanism. The Farc has described the ruling as "the biggest setback to the peace process so far". The uncertainty produced by the ruling will complicate negotiations with the ELN, which will now be even more apprehensive.

## Zavala blasts congress after Vizcarra forced out

### Giuffra mooted as replacement

Bruno Giuffra will be the new transport minister, the daily *El Comercio* reports. Giuffra, currently the minister for production, has been quite high-profile, recently unveiling new schemes to help the thousands of small and micro companies that form the backbone of Peru's domestic economy. The newspaper said that Cayetana Aljovín, the minister for development and social inclusion, had been invited to take up the production ministry, but had declined.

The gloves are off between the government led by President Pedro Pablo Kuczynski and the opposition Fujimorista-controlled legislature. A week after congress threatened to censure the transport & communications minister Martín Vizcarra, forcing his resignation, Prime Minister Fernando Zavala accused congress of “abuse of power” and “obstruction”. This simmering political brinkmanship does nothing for the efforts to get reconstruction efforts underway after the devastating five-month flooding crisis in the country, which in turn puts at risk Peru's economic recovery. The row surrounding Vizcarra's departure from the transport ministry also threatens to undermine investor sentiment in the country.

Vizcarra, also Peru's elected vice president, resigned his ministerial post on 22 May, after announcing the cancellation of the public-private contract for the (long-awaited) new Chinchero international airport in Cusco. Vizcarra, a close ally of President Kuczynski, who helped steer his 2016 election campaign, had been looking unsafe in his ministerial post for months. The Fuerza Popular (FP, Fujimoristas), which dominates congress, argued that the transport ministry's decision to sign a contract addendum allowing the government to put up the initial funding to get the US\$500m airport underway, amid financial difficulties in the Kuntur Wasi private consortium awarded the concession (back in 2014), was detrimental to the state. In January, congress asked the comptroller general's office to review the contract addendum. Congress appoints the comptroller general.

The comptroller general's report, released last week, was negative about the addendum; however, it did not formally accuse Vizcarra of any irregularity (perhaps in deference to his elected position as vice-president). The deputy transport minister, by contrast, was denounced. She has also resigned and may face punitive action (Peruvian civil servants can be held personally liable for public contract irregularities). Nonetheless, following his congressional testimony (on 18 May), congress threatened to censure Vizcarra (which would have forced Kuczynski to dismiss him).

In his resignation announcement, Vizcarra defended his work and apologised to the people of Cusco. The leader of the left-wing opposition Frente Amplio (FA), Verónica Mendoza, blamed Kuczynski, accusing him of being beholden to business lobby interests. “Mr Kuczynski, govern for the people, not for lobbies. Investments should be planned and executed for the public interest,” Mendoza tweeted. “Enough of give-away addendums. Enough of playing with the people of Cusco”.

Yet the incident did not end there, as FP then went on to demand that Vizcarra also resign his elected post as vice president. The Kuczynski administration could barely contain its fury, as it had been ‘understood’ that the matter would go no further. Kuczynski defended Vizcarra, while deputies for the ruling Peruanos por el Cambio (PPK) condemned FP and accused it of wanting to destabilise the government. The PPK's bench leader, Carlos Bruce, called on FP to “read the constitution”, noting that “Vizcarra's management as minister of state has nothing to do with the fact that he was democratically elected as first vice-president”. Bruce also emphasised that Vizcarra had not been found to have committed any irregularity in the Chinchero contract addendum.

With concern that the suspension of the Chinchero contract will contaminate the investment environment in Peru, and that FP's behaviour in congress

“We have shown, on repeated occasions, that we are open to dialogue, that we look for consensus. We have gone to congress innumerable times, and over many hours, to give account, to take suggestions, and we will continue to do so. [But] we have seen in recent weeks how things have gone from discrepancy to calumny, from criticism to lack of respect.”

**Prime Minister  
Fernando Zavala**

will hobble the government’s reconstruction plans, the normally carefully-spoken Zavala appeared to lose his patience in a television interview, accusing congress (essentially FP) of overstepping the mark.

“We [the executive] will always be ready to explain our progress, recognise our errors and take on all possible suggestions, but we will never distort functions or lose perspective,” Zavala declared. “One thing is political control, but another is the abuse of power. One is to audit, another is to obstruct,” he continued (*see sidebar*).

Congress, along with the comptroller general’s office, Zavala noted, needs to act “responsibly”. By turns scolding and pleading, he urged congress “not to send a bad message to Peruvians wanting to contribute their part to the reconstruction”. “We cannot lose time, things cannot wait,” he stressed. “Generating a good climate for our economy to recover quickly, so that people can feel it, day by day, this should be our focus...don’t let Peru lose another opportunity to advance”. The prime minister ended with a call for “a return to respect”.

The minority Kuczynski government can cajole, plead and scold all it likes, but at the end of the day the Fujimoristas are dictating the pace. They will operate exclusively according to their own political ambition, which has one name – ‘2021’ (date of the next general election). Their support for Kuczynski will be strictly measured and doled out according to that ambition – and Kuczynski, who barely even has a political party to call his own, can do little about it.

As the chief liaison between the executive and congress, Zavala’s frustration is palpable, but it is no more than that endured by those before him. The Fujimoristas managed to see off seven prime ministers in the last government led by Ollanta Humala (2011-2016).

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## TRACKING TRENDS

**COLOMBIA | FDI inflows.** Colombia received US\$2.4bn in foreign direct investment (FDI) inflows, only 21.5% of its FDI inflow target for the year, by the end of April, the finance ministry (Minhacienda) reported. The FDI inflows to April are 16.7% less than in the same period of 2016.

Based on these results, Minhacienda foresees an 18.2% reduction in FDI inflows in 2017, which reflects a reduction from the US\$13.6bn received in 2016 to US\$11.1bn. However, Minhacienda also points out that if the US\$1bn paid by Canadian investment fund Brookfield Asset Management for the purchase of the government’s 57% share in energy company, Isagén, in April last year is discounted, then the amount of FDI inflows in the first quarter of the year represent a 27.4% increase.

Noting that the one-off sale of Isagén, for which Brookfield paid a total of US\$3.36bn last year to become its sole owner, was the biggest FDI inflow last year, accounting for 24.7% of the total, Minhacienda argues that FDI inflows this year continue to exhibit a positive performance. According to Minhacienda, if the Isagén sale is excluded, FDI inflows last year totalled US\$8.03bn and the current year-end FDI inflow forecast stands at US\$8.9bn.

Minhacienda’s reports come just as a delegation of Colombian businessmen led by the head of Colombia’s investment promotion agency ProColombia, Felipe Jaramillo, began a tour of the US aimed at attracting investment to Colombia.

Jaramillo said in a statement that Colombia is currently experiencing one of its best moments in its history due to the peace agreement that the government has signed with the Fuerzas Armadas Revolucionarias de Colombia (Farc) guerrilla group, as this contributes further possibilities for investment.

Jaramillo’s tour marks the fifth anniversary of the Colombian-US free trade agreement. Since it came into effect, US investment in Colombia has increased by 41%.



**Macri seals Japan deal****Toyota**

President Macri met the president of Toyota, Takeshi Uchiyamada, during his visit to Japan. Uchiyamada announced that Toyota would significantly increase the number of vehicles being produced at its Zárate plant in the province of Buenos Aires by as much as 30% to 131,000 units per year. Uchiyamada said this would provide an additional 1,800 jobs directly and indirectly. Macri said he hoped that other Japanese companies would follow Toyota's example in the months ahead and establish bases in Argentina.

President Mauricio Macri wrapped up a foreign tour of the United Arab Emirates (UAE), China and Japan, in Tokyo at the weekend. In total Macri spent three days in Japan, signing a series of agreements with the country's prime minister Shinzo Abe in the areas of technology, agriculture and livestock. Macri's principal aim was to boost bilateral trade, which is relatively small, and investment.

Two-way trade between Argentina and Japan amounted to just US\$1.59bn in 2016, according to a report by the local Argentine consultancy Abeceb, with Japanese investments totalling US\$782m at the end of 2015. Argentina's exports to Japan totalled US\$662m in 2016, while it imported US\$927m of products from the Asian powerhouse, leaving it with a trade deficit of US\$265m. Bilateral trade has actually been falling in recent years as it stood at US\$2.87bn as recently as 2013.

In a bid to boost both trade and investment, President Macri accepted the inclusion of a clause in agreements signed with Abe allowing Japanese companies to seek international arbitration from the World Bank's dispute settlement arm Icsid in the event of non-fulfilment of contracts.

**TRACKING TRENDS**

**URUGUAY | Tax revenue increase.** On 21 May Uruguay's national tax authorities (DGI) reported that the tax take increased by 5.3% to reach Ur\$108.37bn (US\$3.8bn) in the first quarter of the year. A DGI report highlighted that the increased tax revenue in the first quarter (which translated into a 4.7% increase in net real tax income) was driven by increases in revenues produced by the value added tax (VAT) and the Imesi excise tax levied on alcoholic and soft drinks, which suggests an increase in domestic consumption. Another factor was the increase in the income tax rate (IRPF) introduced as part of the government's fiscal reform carried out last year.

The DGI report shows that VAT income, the biggest source of tax revenue in Uruguay accounting for 45.4% of the total, increased by 1.7% year-on-year in the quarter. Meanwhile the IRPF, the second main source of tax revenue accounting for 17.8% of the total, increased by a substantial 21.9% year-on-year in the first quarter.

The results are positive for the government led by President Tabaré Vázquez, as it shows that its fiscal reform has had the desired effect and provided a boost to the tax take, which is linked to its plans to reduce the country's fiscal deficit of around 4% of GDP. Achieving this objective is key for the government as it hopes that it will help to maintain Uruguay's coveted investment grade rating. Pointedly, in a recent interview with the Uruguayan daily *El País*, analysts from international ratings agency Standard & Poor's (S&P) viewed the current government's management of the country's finances favourably.

S&P analyst Marina Neves said that after Uruguay's domestic economy performed as expected and posted a modest 1.5% growth last year, analysts are now focused on the government's fiscal consolidation plans. Neves praised the work done by the Vázquez administration on this front so far. Neves noted that the fiscal reform had been positive and was starting to produce results, providing optimism that the government would reach its fiscal objectives. Neves said that if this is achieved the chances of Uruguay maintaining its current 'BBB' rating would be higher.

## Edomex showdown could reshape political landscape

Tension is mounting ahead of the crucial contest for governor of the Estado de México (Edomex) on 4 June. The last two weeks have been punctuated by acrimonious exchanges on the left of the political spectrum, at the heart of which is the leader of the radical opposition Movimiento Regeneración Nacional (Morena), Andrés Manuel López Obrador. All opposition parties are acutely aware that this is the best opportunity in the last 90 years to storm the main bastion of the ruling Partido Revolucionario Institucional (PRI). It would be difficult for the PRI to recover from defeat in Edomex to mount a challenge in the 2018 presidential elections.

### López Obrador dictates terms

López Obrador, who narrowly missed out on the presidency for the left-wing opposition Partido de la Revolución Democrática (PRD) in 2006 and 2012, ordered both his former party and the small leftist Partido del Trabajo (PT) on 5 May to withdraw their candidates from the Edomex contest, as well as the concurrent gubernatorial elections in the states of Coahuila and Nayarit, and municipal elections in Veracruz. Failure to comply, López Obrador said, would scupper any chance of an alliance in 2018; instead he would stand alone with Morena.

López Obrador accused the PRD and PT of conspiring to ensure a PRI victory in Edomex: the PRI's candidate Alfredo del Mazo Maza tops all the opinion polls but, for several months they have shown him just two to three percentage points ahead of Morena's candidate, Delfina Gómez, with the PRD's Juan Zepeda nestled in closely behind with Josefina Vázquez Mota of the right-wing opposition Partido Acción Nacional (PAN).

Neither the PRD nor the PT took kindly to López Obrador's threat. But the Morena leader was undeterred. On 19 May he gave Zepeda a four-day ultimatum to step aside and back Gómez in Edomex. The following day, the PRD president, Alejandra Barrales, held a meeting with her PAN counterpart Ricardo Anaya in which she not only defended the candidacy of Zepeda, who she asserted was alone in climbing in the polls (*see sidebar*), but also snubbed López Obrador by announcing the formation of a grand coalition, Frente Amplio Opositor, led by the PAN and the PRD, to compete in the 2018 presidential elections.

"This front will allow us to subordinate partisan interests to the people and put the project above candidates," Barrales said, in a thinly veiled allusion to López Obrador's personalist brand of politics. Anaya concurred, arguing that the proposed coalition would "not just be a party alliance but a broad front comprising political, social, and academic figures to remove the PRI from power, and give Mexico a coalition government, an honest government that delivers results". The idea of extending the coalition to embrace actors from other walks of life is designed to appeal to voters disillusioned with traditional party politics in Mexico and attracted by the idea of independents.

Senator Miguel Barbosa, who defected from the PRD last month because of his overt backing of López Obrador's presidential candidacy, described the

### The rise of Zepeda

The PRD's candidate in the Edomex gubernatorial elections, Juan Zepeda, has risen to second in the race, ahead of Morena's Delfina Gómez for the first time, according to two opinion surveys published this week. A poll by *Parámetro* put the PRI's Alfredo del Mazo out front on 27% followed by Zepeda on 23.7%, Gómez on 23.2% and the PAN's Josefina Vázquez Mota in fourth on 17.4%. Another poll by *Mercadirec* for *La Razón* also had Zepeda in second on 26%, four percentage points behind Del Mazo, with Vázquez Mota third on 22% and Gómez on 17%. That Zepeda could be in contention to win in Edomex would be a remarkable development given that the PRD only selected him as its candidate recently after a proposed alliance with the PAN in the state fell through. However, yet another poll by *El Financiero*, published on 24 May, put Del Mazo on 34%, Gómez on 29%, Zepeda on 19% and Vázquez Mota on just 13%.

“For this [political coalition] to be a success, everybody must be prepared to subordinate any personal interest to the greater interest of the country. This project should attract anyone who wants a democratic change in the country.”

*The president of the PAN, Ricardo Anaya.*

proposed coalition as “a political error”. Barbosa said it was designed “not against the PRI but against Andrés Manuel López Obrador”. Whatever the actual motivation behind the announcement of the coalition, its formation faces major obstacles which neither Barrales nor Anaya adequately addressed in a joint press conference after their meeting. The PRD and PAN, along with any other actors who jump aboard, will need to define a common programme of government. This is not an insurmountable obstacle but it will not be straightforward: both parties have forged successful alliances at state level to defeat the PRI, but never at presidential level.

The main challenge, however, despite Barrales’ claim to the contrary, surrounds the chosen presidential candidate and the selection process. Barrales said the two parties would make a decision on candidates in October or November this year. The PAN, as the largest party, is likely to want to supply the candidate for the coalition but the PRD is sure to demure (this was, after all, what put paid to a proposed alliance between the two parties in Edomex) especially if it is Margarita Zavala, the wife of former president Felipe Calderón (2006-2012).

Zavala, meanwhile, has accused Anaya of conspiring to benefit himself. While in public Anaya has denied any desire to contend in PAN internal elections to select a presidential candidate for 2018, Zavala and others suspect him of equivocating, while using the structure and resources of the party for his personal project. The PAN’s other principal presidential aspirant, Rafael Moreno Valle, a former governor of the central state of Puebla, also criticised the proposed coalition. Moreno said that a plan of governance should have been agreed upon before pursuing alliances.

This could all lead to some internal ructions in the PAN, derailing the nascent coalition. The PRI, meanwhile, should avoid any party infighting by defining its own presidential candidate, in accordance with tradition, by *dedazo* (anointment) shortly after the 4 June elections. Given the unpopularity of the government led by President Enrique Peña Nieto it is being speculated that the PRI will opt for an official not too clearly identified with his administration.

## MEXICO | SECURITY

### Organised crime, police, implicated in killing

**The murder on 20 May of indigenous activist Miguel Vázquez, and his brother Ángel, in the state of Jalisco has been tentatively linked by the state prosecutor to organised crime and to complicit members of the local police and the municipal authorities.**

The two brothers were members of the wixárika (huichol) indigenous community in Jalisco state. They were killed in two separate gun attacks in the community of San Sebastián Teponahuaxtla. According to local reports the shootings occurred hours after an altercation at a community meeting.

Until he stepped down in March, Miguel Vázquez had been president of an organisation holding community assets (known as the Comisariado de Bienes Comunales). In that role he had been able to recover 184 hectares of disputed land, which had previously been held by cattle ranchers from Huajimic, a town across the border in the neighbouring state of Nayarit. Jalisco state prosecutor Eduardo Almaguer said he was investigating whether this dispute was a motive for the double killing.

## US-Mexico drug war

“If Americans understood that playing around with drugs on a weekend for fun ultimately ends or results in lives lost in Mexico...and stopped doing that...that would significantly reduce the amount of drugs and, consequently, the amount of profits that come out of the United States.... The most important thing we can do is reduce the drug demand. We’ve never tried it, we’ve never done it. We have to have – develop a comprehensive drug demand reduction program in the United States that involves everybody – involves professional sports, Hollywood; involves governors, mayors; involves parents, priests; involves everybody. We can reduce the amount of drugs consumed in the United States significantly – never go to zero, but we can reduce it. But until we do, we’ll be fighting at best a neutral battle on the border.”

*US Secretary of Homeland Security John Kelly.*

Another line of enquiry was whether the brothers had been murdered by local drug trafficking organisations (DTOs) that have been active in an area straddling Jalisco and the state of Zacatecas. According to the local newspaper *La Jornada*, Miguel Vázquez had previously accused drug traffickers of forcing local farmers to grow poppies for the production of opium paste.

Almaguer said the local mayor and municipal police may have been complicit, since they did nothing to prevent the attack, leaving the area immediately after the shootings and not reporting the crimes until more than an hour later. If confirmed, this would be a familiar pattern in Mexico, where DTOs often co-opt the local police.

Almaguer said police uniforms, weapons, and drugs had been found at a nearby house. *Movimiento Ciudadano*, the left-wing political party, said the crime reflected “the absence of the state as a guarantor of the security and the rights of indigenous communities”.

In a separate incident, on 22 May, another indigenous leader, Guadalupe Huet Gómez, who belonged to the *tzotzil* community in the central state of Puebla, was also killed.

The Office of the United Nations High Commissioner for Human Rights (OHCHR) condemned all three killings, saying they showed the serious state of vulnerability faced by those who defend human rights in Mexico, particularly indigenous and community leaders. It demanded that the government launch an exhaustive and impartial investigation into the murders.

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## TRACKING TRENDS

**MEXICO | Growth picks up despite Nafta cloud.** The Mexican economy is holding up, defying prognostications of doom after Donald Trump won the US presidency last November. In the first quarter of 2017, Mexico’s GDP expanded by 2.8% compared with the same period a year earlier, according to figures released by the national statistics institute (Inegi) on 22 May. This is also a faster rate of growth than that registered in the final quarter of 2016 (2.4% year-on-year). The primary sector was buoyant, growing by 6.6%, while the tertiary services sector was resilient, expanding by 3.7%. Even the secondary (industrial) sector registered slight growth of 0.5% (having failed to grow at all in 2016). The figure would have been a lot higher if it were not for the sharp contraction of mining (-10.8%) as industrial manufacturing expanded by 4.8%, and construction by 1.5%.

Pessimists argue that the renegotiation of the North American Free Trade Agreement (Nafta) is yet to get underway (this is tentatively scheduled for August), but the government is at pains to put a positive spin on the impending talks. Speaking during a press conference in Washington DC on 18 May, Foreign Minister Luis Videgaray insisted “this is something that we very much welcome”, describing the renegotiation of Nafta as “a significant net positive for the Mexico-U.S. relationship”.

This might be putting a brave face on it, but the Mexican government has been encouraged by the more constructive approach taken by US officials in recent weeks. Videgaray was in the US with the interior minister, Miguel Angel Osorio Chong, for 2x2 talks with their US peers Rex Tillerson and John Kelly respectively centred on new strategies for combating drug trafficking and transnational crime. Both Tillerson and Kelly fully accepted US co-responsibility for the problem (see sidebar), which appeared designed to mitigate some of Trump’s criticism of Mexico and its “bad hombres”.



## Gearing up for elections

**Russia relations**

On 10 May a Russian oil tanker arrived in Cuba carrying 249,000 barrels of diesel to help make up for the shortfall of oil supplies from Venezuela. The Russian state oil company Rosneft announced an agreement with Cuba's state-run Cubametals a week earlier to supply 250,000 tonnes of oil and diesel (equivalent to some 1.87m barrels) on an unspecified timeline. It is not clear what, if anything, Cuba is paying: the market value would be some US\$105m. This is a big jump from the US\$11.3m of oil and derivatives Russia supplied to Cuba between 2010 and 2015. Cuba appears to be hedging against the sudden curtailment of Venezuelan oil supplies. The political future of any new government under a leader other than President Castro if oil supplies suddenly dissipate would be bleak. The Cuban people are unlikely to tolerate another Special Period.

Cuban state media announced on 18 May that the interior ministry will commence updating the electoral roll for "the upcoming electoral process". It gave no details about the elections themselves but they stand to be the most intriguing since the organs of popular power were established in 1976. This is because President Raúl Castro has announced that he will step down in February 2018. The media gave no date for the start of the electoral process but customarily it begins with municipal elections in October.

Voters elect around 15,000 delegates from more than twice as many candidates to positions on the 169 municipal assemblies of popular power. These are Cuba's only direct elections by secret ballot. Candidates have to be nominated, however, in neighbourhood meetings in their respective constituencies in September by raised hand, which effectively rules out anyone from outside of the Partido Comunista de Cuba (PCC). There is no campaigning and all that voters find out about candidates is a short biography drawn up by the national electoral commission – appointed by the PCC – and a photograph in the voting centres.

The municipal assemblies wield no real power; their only role is to elect delegates to provincial assemblies, and the 612-seat national assembly, but they can only choose from a slate of candidates compiled by the commission. The national assembly also devolves its power: it meets twice a year for a few days. Its main purpose is to select the 31-member council of state, which selects the council of ministers and heads of government. This process should culminate in early 2018 but for the first time without a Castro as president.

President Castro is expected to remain as first secretary of the PCC until 2021, however, so he will retain one hand firmly on the tiller. It is a complex time for the Revolution with great uncertainty surrounding the diplomatic rapprochement undertaken by Castro and former US president Barack Obama. On 20 May, the 115<sup>th</sup> anniversary of the birth of the Cuban Republic, President Donald Trump issued a message saying that "the Cuban people deserve a government that respects democratic values, economic, religious and human rights, and my government is determined to shape that vision...cruel despotism cannot extinguish the flame of freedom in the hearts of Cubans". The Cuban government had until now refrained from commenting on Trump's actions in office but it denounced his words as "controversial and ridiculous".

Just as Cuba and the US appear to be drifting apart again, Cuba's ties with the European Union (EU) inched a bit closer, while Russia appears intent on reviving in part its Cold War role (*see sidebar*). On 22 May the EU and Cuba held their third high-level discussion on human rights in Brussels which, according to a statement by the European External Action Service (EEAS), covered "the recent and forthcoming elections in the EU and Cuba".

The EU stressed the importance of "free access to media and to information, freedoms of expression, association and assembly so that voices from different parts of the political spectrum can be heard and participate [in the elections]". Cuba raised its concern that the low turnout in recent European electoral processes reflected "the crisis of confidence and limitations of representative bourgeois democracy", as opposed to "a model of socialist democracy based on full citizen participation".

**Policy change**

The INCSR report also notes that while on the policy front, Guatemala has historically relied on manual eradication missions to counter opium poppy cultivation, “in a major policy shift, officials now consider this one-dimensional response inadequate and have embraced a new multifaceted approach to combat poppy cultivation”. According to the report an interagency effort was launched in 2016 to supplement existing eradication efforts with regular community prosperity missions to promote health, education, and long-term economic development. It also notes that in 2016, counternarcotics police launched just one poppy eradication mission due to intercommunal conflict over water in San Marcos, community resistance to prior missions, and the virtual absence of a state presence in the region.

**Military deployment to resolve long-running dispute**

Guatemala’s legislature has approved a presidential decree declaring a state of siege in two municipalities, Ixchiguán and Tajumulco, both in San Marcos department which borders Mexico. President Jimmy Morales said the move, which lasts 30 days, was necessary to recover state control of the area following recent violent incidents. Dating back to 1933, following the creation of Ixchiguán as a municipality, the dispute serves as an example of social conflict over access to key resources like land and water. However, the area is also used for opium poppy cultivation and the violence has been linked to narcotrafficking activity and a turf war between two Mexican drug trafficking organisations (DTOs), Sinaloa/Pacífico and Cártel Jalisco Nueva Generación (CJNG).

Approved by 114 votes in the 158-member unicameral congress on 15 May, the state of siege restricts basic rights like the freedom of movement and the right to bear arms. At the time of writing some 1,040 military officials, 1,200 police (PNC) officials, and 450 anti-drugs forces had been sent to the area.

The dispute made headlines in March after clashes between inhabitants from the two municipalities, which lasted seven days, and resulted in one death with three people injured. The clashes erupted after Ixchiguán residents began building a house in disputed area. This led to a meeting between local community representatives, Vice President Jafeth Cabrera, and presidential commissioner for dialogue Rocael Cardona, who pledged that a framework agreement would be drawn up to provide a “definitive solution” to the conflict. The dispute again made headlines a week prior to the declaration of the state of siege after 17 PNC officers were taken hostage on 5 May (and freed three days later). According to local press reports, this followed PNC efforts to intervene in clashes over the same issue.

**Opium**

While the long-running land dispute is a factor in the tensions, security officials also link it to turf wars over opium. Back in March, authorities reportedly seized M-16, AK-47, and AR-15 assault rifles during a PNC deployment, prompting questions as to how local inhabitants were so heavily armed. The most recent International Narcotics Control Strategy Report (INCSR), published by the US State Department in March, notes that in 2016, Guatemalan law enforcement agencies reportedly confiscated 144kg of heroin and destroyed 17m opium poppy plants.

At the time of writing the authorities announced that since the state of siege was declared, the security forces had destroyed more than 4.39m opium poppy plants in the areas of Santa Isabel and Tojinchun, in Tajumulco municipality. According to official sources, the poppy plants were worth Q\$109.87m (US\$14.8m).

**Social conflict**

The most recent (2016) annual report by the human rights ombudsman (PDH), released in January this year, cites figures from the presidential human rights commission (Copredek) which registered 381 incidents of social conflict during 2015, and 230 between January and October 2016 – a total of 611 cases.

The PDH report notes that most of the cases related to agrarian demands (34%) while 31% of those registered were attributed to “nonconformity with state public policies at a local level”, while 18% were over demands relating to natural resources.

**Ortega defiant over IMF call for reform****Growth**

While expressing concern about the INSS and prospect of the approval of the NICA, the IMF was upbeat about other indicators. In its report, the IMF noted Nicaragua's real GDP grew by 4.7% in 2016, supported by strong domestic demand, while inflation remained subdued at 3.1% as of end-2016, owing largely to low food prices. The IMF also notes that "inflation expectations remain well anchored by the crawling peg", and is projecting real GDP growth in 2017 at 4.5%, while inflation is expected to remain contained at about 6%, assuming food and oil prices remain consistent with the projections of the IMF's World Economic Outlook.

The International Monetary Fund (IMF) paid a recent visit to Managua in the context of the 2017 Article IV consultation. While upbeat about GDP growth and other indicators, the IMF nonetheless flagged up concern about the sustainability of the social security institute (INSS), calling on the Frente Sandinista de Liberación Nacional (FSLN) government led by President Daniel Ortega to make changes. A statement recently issued by the INSS indicating that "the age of retirement and weekly contributions necessary to obtain a pension in the INSS will not be changed" suggest these concerns – which have been echoed by other institutions such as the local economic and social development think tank, Fundes – have fallen on deaf ears.

Under Nicaragua's social security law, to be eligible for a pension and specialised healthcare at INSS clinics after the age of 60, workers must have paid into the system for at least 750 weeks (14.4 years). A report by state mouthpiece *el19digital*, dated 10 May, notes that the number of people covered by the INSS increased from 420,326 in 2006 to 914,276 in April 2017 while the value of minimum pension, which was C\$1,212 (US\$40.5) a month in 2006 – the year before the FSLN government returned to power – had risen to C\$4,680 in 2016.

In its report following the Article IV consultation, released on 12 May, the IMF highlights the fact that the consolidated public sector (CPS) had widened from 2.2% in 2015 to 2.4% in 2016 due to a higher INSS deficit, along with election-related spending and expansion of public investment. Noting that the INSS's deficit is expected to continue increasing to up to 0.43% of GDP in 2017, the IMF goes on to warn that the "increase of INSS's deficits might increase public debt in the long run, threatening its sustainability". A Fundes report, which was presented on 12 May, also highlights that in 2016, the INSS had a negative balance of C\$1.58bn, an increase of 71.2% of the deficit observed during 2015 – as a result of the increase in current spending.

Warning that under current policies the INSS will "continue to run deficits and deplete its liquid reserves by 2019, potentially necessitating transfers from the government", the IMF urges the government, labour unions, and the private sector to "arrive at a mutually agreeable solution as a matter of priority, as delaying the reforms will lead to a worsening of the situation and increase the costs". The multilateral suggests that a sustainable outcome could be achieved by a combination of: (i) streamlining and rationalising operational and health costs; (ii) increasing the retirement age; (iii) raising the minimum contribution period; (iv) increasing employer and employee contribution rates; (v) revising the pension indexation mechanism; (vi) reducing benefits; and (vii) assuming some expenditures by the government (for instance, reduced and special pensions) – all recommendations which the government has yet to show any sign of adopting.

**NICA Act**

As well as concerns over the INSS, the IMF also flagged up as a risk the possibility of the US government ratifying the Nicaraguan Investment Conditionality Act (NICA) of 2017 – the latest response to democracy-related concerns surrounding the November 2016 general elections which produced a sweeping re-election for President Ortega albeit in a highly questioned process. The NICA was reintroduced in the US Senate on 27 April by US Senator Ted Cruz (R-TX), a companion to the bipartisan measure introduced in the House of Representatives on 5 April, and is the latest version of an initiative first debated last year which would prevent the Nicaraguan government from accessing international financing until reforms are implemented that "promote democracy, strengthen the rule of law, respect human rights...until Nicaragua holds free, fair, and transparent elections overseen by electoral observers".



## POSTSCRIPT

### Quotes of the week

“I invite everyone to forge an austere government; we can be efficient but without unnecessary expenditure; we must all guarantee that the resources of the people are administered with the utmost care and with total transparency.”

*Ecuador's President Lenín Moreno in his inaugural speech.*

“Even the US government itself is aware of the contradictory and clumsy pronouncements of the millionaire tycoon turned president, on issues of both foreign and domestic politics.”

*A note read on Cuban state television.*

“We Americans must own this problem. It is ours. There is no other market, it is all us. But for us, Mexico wouldn't have a transnational organized crime problem.”

*US Secretary of State Rex Tillerson.*

### El Salvador gets top papal recognition

El Salvador has its first cardinal. In the same week that a Salvadorean judge announced the re-opening of an investigation into the infamous assassination of Archbishop Oscar Arnulfo Romero by a right-wing death squad in 1980, Pope Francis revealed that Monsignor Gregorio Rosa Chávez, a close friend of Romero's, would become a cardinal. The elevation of Rosa Chávez, 75, is a source of great pride in El Salvador, not least because neighbouring Honduras has a cardinal, the archbishop of Tegucigalpa, Oscar Andrés Cardinal Rodríguez, who has been deemed to be papabile. El Salvador's President Salvador Sánchez Cerén tweeted that the pope's announcement “fills us with immense happiness and gratitude”.

By appointing Rosa Chávez as a cardinal, Pope Francis passed over the archbishop of San Salvador, José Luis Escobar y Alas, for the honour. Rosa Chávez is only the auxiliary bishop of San Salvador. But the Pope has demonstrated a determination to appoint cardinals he views as living humble lives, being close to the Catholic faithful and, most importantly, actively working for the poor.

Rosa Chávez dedicated the “gift” of the cardinalship, which he will formally assume on 28 June in a ceremony at the Vatican, to Romero, who was beatified in May 2015. It is possible that Rosa Chávez might use his position to push the pope towards Vatican mediation of a dialogue process between the Sánchez Cerén administration and El Salvador's *mara* street gangs. Rosa Chávez has indicated that he would be supportive of such a dialogue in the right circumstances. Just this week six people were massacred in the east of the country allegedly by shadowy death squads, evoking disturbing parallels with the bloody civil war (1980-1992) which claimed Romero's life.

On 18 May Judge Ricardo Chicas ordered public prosecutors to re-open the case into Romero's assassination against Alvaro Rafael Saravia, a former air force captain who was the main suspect but evaded prosecution because of the country's amnesty law, which was struck down last year by the constitutional chamber of the supreme court. Saravia was a close confidant of the late founder of the right-wing Alianza Republicana Nacionalista (Arena), Roberto D'Aubuisson, who a United Nations truth commission determined was the intellectual author of the crime.

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