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Peru's Kuczynski faces backlash over Fujimori pardon

Peru's President Pedro Pablo Kuczynski's momentous decision to pardon former president Alberto Fujimori (1990-2000) will not just define his political legacy but also impact the country's international image. The pardon, announced by Kuczynski on Christmas Eve, was ostensibly for humanitarian reasons. But its timing pointed to an ulterior motive. Just three days earlier Kuczynski had narrowly survived an impeachment motion in congress. Decisive in this favourable outcome was the abstention of 10 deputies from the main opposition Fuerza Popular (FP) aligned with Fujimori's son Kenji. Kuczynski now faces an uphill task recovering his credibility and international confidence in Peru.

In an address to the nation on Christmas Day, President Kuczynski said that Fujimori had "committed significant transgressions of the law, with respect to democracy and human rights" but that it was time "to heal open wounds" and "turn the page". Kuczynski even defended Fujimori's government, which he said had "inherited a country immersed in a violent and chaotic crisis...but contributed to national progress". He said that "democrats should not allow Fujimori to die in prison: justice is not vengeance".

More than 30,000 people turned out in Lima, and thousands more in a further eight regions nationwide, in protest. A national march is scheduled to take place on 11 January to condemn the pardon. Numerous international organisations and human rights groups questioned Kuczynski's decision on both moral and legal grounds given that it did not comply with the conditions established in Peruvian law for a pardon to be granted. The Peruvian state will have to appear before the Inter-American Court of Human Rights on 2 February to determine whether it has violated its international obligations with regard to the Barrios Altos and La Cantuta cases. Fujimori was convicted to 25 years in prison for responsibility for the infamous massacres, carried out in 1991 and 1992 respectively by members of the right-wing death squad Colina.

Fujimori released a Facebook message two days after his pardon saying that "the results of my government were well received by some but I recognise that I betrayed others and I apologise to them from the bottom of my heart". But there was no recognition of his having committed the crimes for which he was convicted, let alone contrition. He expressed gratitude to Kuczynski and promised to support his call for reconciliation.

Those who voted for Kuczynski because of his fierce opposition to Fujimorismo were incensed by his U-turn. Before coming to power, Kuczynski repeatedly said he would not pardon Fujimori. After taking power, he emphatically answered "no" when questioned on the matter four times. Addressing the nation on 20 December, while mounting a desperate

Fujimorista power struggle

Kenji Fujimori and his nine fellow dissidents appeared before the FP's disciplinary committee on 9 January. The disciplinary process is expected to take more than two weeks. Kenji has been disciplined twice before but, strengthened by the release of his father, he might now seek to break away from the FP and form his own congressional bloc, although he lacks his sister Keiko's leadership qualities.

rearguard effort ahead of a congressional vote to impeach him for concealing the truth about consultancy services offered by a national firm he owns to the Brazilian construction company Odebrecht [WR-17-50], Kuczynski urged democrats to rally behind him in the face of "an attack on the constitutional order", insisting "we are facing a coup".

Kuczynski succeeded in winning crucial support from left-wing deputies galvanised by anti-Fujimorista sentiment. But despite the denials of both the prime minister Mercedes Aráoz, and the defence minister Jorge Nieto, rumours of a pardon on the eve of the vote appeared to have some foundation. Aráoz had stated unequivocally that "this government doesn't negotiate pardons". Nieto subsequently resigned over the pardon on 3 January.

The culture minister, Salvador del Solar, had already quit on 27 December, along with presidential advisers Felipe Ortiz de Zevallos and Máximo San Román, who served as vice-president between 1990 and 1992 under Fujimori before his autogolpe. Three deputies in the 18-strong congressional bloc of the ruling Peruanos por el Cambio (PPK) abandoned the party over the pardon. The loss of Alberto de Belaúnde, Vicente Zeballos, and Gino Costa will be felt keenly as they were three of PPK's most eloquent speakers and active members.

Those parties who begrudgingly defended Kuczynski against the perceived threat of Fujimorismo subverting democracy accused the head of state of negotiating a quid pro quo deal with Kenji Fujimori to pardon his father in exchange for not voting for his impeachment. Ten members of the FP, including Kenji, abstained from the vote.

Political reconfiguration

Kuczynski survived the impeachment vote, but he now looks weaker than ever. The support he could rely upon from parties opposed to the FP has evaporated. Indeed, some of them now want to impeach him on the grounds that a head of state capable of dissembling in this manner, denouncing a Fujimorista coup while simultaneously negotiating Fujimori's pardon, is more than likely concealing the truth about his links to Odebrecht.

It was a very risky political gamble if Kuczynski hoped that the release of Fujimori would empower Kenji in his power struggle with his sister Keiko for control of the FP, driving a wedge in the party which has used its congressional majority to censure his ministers and block his government's agenda (see *sidebar*). Kenji and his nine dissidents do not make up a bona fide internal faction within the FP. Even if their number swelled to 20, and they were willing to back his government, Kuczynski would be weaker in congress than he is now. The only clear benefit for Kuczynski is that they could deny the FP its congressional majority to keep his government perennially on the ropes.

Kuczynski confidently announced in the days after Fujimori's pardon that he was preparing a "cabinet of reconciliation". But it took two weeks from the initial announcement before new appointments could be confirmed. By definition a "cabinet of reconciliation" would need to be composed of politicians from more than one political party. Reconciliation is not unilateral. But no political parties wanted to be associated with a discredited government. Of the nine cabinet changes, only two ministers came from an opposition party – Javier Barreda (labour) and Abel Salinas Rivas (health) – and they were promptly expelled from their party, the Partido Aprista Peruano (PAP).

There is a serious concern that Kuczynski's political weakness will have economic repercussions. Miguel Palomino, the director of the central bank (BCR), said it would revise its annual economic growth forecast of 4.2% for 2018 because of the political uncertainty. "What is at stake is growing at a rate of 3%-4% or 6%-7% annually," Palomino said.

Maduro picks up unwanted records**Petro**

President Maduro urged the business sector and the younger generation to embrace the petro. Further details of cryptocurrency mining farms will be announced when the petro is launched, with one possibility being that bondholders could be paid with it, albeit they might not find this option very appealing. For now, there is saturation coverage of the petro with a constant stream of ministers appearing on state television touting the benefits of cryptocurrency as a panacea for the country's financial problems.

Two economic records were broken in the opening days of the New Year. It is fair to say that neither of them were coveted by the government led by President Nicolás Maduro. Inflation reached an all-time high in Venezuela in 2017, and crude oil production fell to a new 28-year low in December. The government's current economic direction is more difficult to discern than that of inflation or crude production.

Inflation reached 2,616% in 2017, according to figures presented by the opposition-controlled national assembly. In the absence of the release of official figures by the Venezuelan central bank (BCV) since 2015, when hyperinflation became the rule rather than the exception, the national assembly has sought to convey the state of the economy instead. "Hyperinflation is unsustainable. It is the ruin of a country," the president of the assembly's finance committee, José Guerra, said, while claiming that 70% of the government's deficit in 2017 was financed by the BCV printing money. Guerra said inflation would exceed 10,000% if the BCV continued to act in this way. He urged the lifting of foreign exchange controls, the refinancing of foreign debt, and seeking international financial assistance.

A fellow committee member, Rafael Guzmán, argued that "there is no salary increase that can combat the present situation", in reference to President Maduro's announcement of a special bonus of BF\$500,000 (US\$149 at the official exchange rate) for 8m Venezuelans on 6 January. This annual gift from the Three Wise Men, the so-called bono de reyes, will further stoke inflation.

"Does this still exist?" was the sole response of the president of the BCV, Ramón Lobo, alluding to the national assembly rather than an official inflation figure. Lobo did not explain why the BCV had neglected to publish data of its own. He said that the BCV was in productive discussions with the Maduro administration, however, to establish "a new exchange rate scheme to combat the onslaught of the economic war...the aggression of the US government, and the international financial blockade".

Different exchange rate mechanisms are rolled out with frequency by the government (the most recent, the Dicom, was brought in in May last year) but there is little "new" about them, as they consistently fail to address underlying problems. The latest change has attracted more interest than normal because it will be linked to the launch of the country's cryptocurrency, the petro, on 14 January.

Maduro said the new national financial system would be "credible", providing access to foreign currency, with the petro expressly designed to circumvent US financial sanctions. He said that 100m units of the petro would be issued. Each unit will be valued the same as one barrel of oil, specifically from field one in the Ayacucho block (which contains 5.34bn barrels of oil) in the Orinoco belt. This means the total issue would be worth nearly US\$6bn.

While oil is being used to underpin the petro, crude production of the state-run Petróleos de Venezuela (Pdvs) fell by 100,000 barrels per day (bpd) in December to 1.7m bpd. This is the lowest figure since 1989 (excluding during the 2002 oil strike and lockout). Oil production dipped beneath 2m bpd for the first time in 28 years last October.

Guterres to visit**Colombia**

President Santos's decision to suspend the peace dialogue with the ELN coincided with a special session of the United Nations Security Council (UNSC) in which the progress made in Colombia's peace process so far was analysed. In the wake of Santos's announcement, the UNSC expressed concern at the breakdown of the bilateral ceasefire. Colombia's vice president Oscar Naranjo, who attended the session, told the UNSC that the Santos government remains committed to reaching a peace deal with the ELN. But the UNSC announced that UN Secretary General António Guterres will visit Colombia this weekend (13-14 January) to "support the peace efforts".

ELN peace talks suspended

President Juan Manuel Santos has ordered the immediate suspension of the peace talks with the Ejército de Liberación Nacional (ELN). He did so at the very start of the fifth round of negotiations being held in Ecuador, and in response to the ELN's launch of a series of attacks just hours after the expiry of the ceasefire that the two sides agreed to observe last year. There were high hopes in Colombia that, given the relative success of the ceasefire and the progress being made in the talks, the two sides would agree to extend the ceasefire at least until the end of this year's electoral season. But there are now concerns that the talks will collapse, resulting in an upsurge in violence ahead of the presidential and congressional elections.

As the 9 January deadline for renewing the bilateral ceasefire agreed by both sides in October 2017 approached, the United Nations (UN) and local civil-society and human rights organisations called on them to agree to an extension. The ceasefire has been generally observed by the two parties, with the UN peace verification mission in Colombia reporting only two violations by ELN fighters since it came into effect. This has helped to reduce the levels of violence and murders in Colombia in the past few months. This, in turn, prompted numerous organisations in Colombia, including all political parties, to demand that the ceasefire be extended until after the 11 March legislative elections and 27 May presidential election.

Both the Santos government and the ELN leadership had said that they were open to discussing an extension to the ceasefire during the new dialogue round, but the start of the fifth dialogue round was unexpectedly delayed for 24 hours. This minor delay opened the door for the current crisis. Santos had expressed his hope that the two negotiating teams would make significant progress with the revamped government team led by former vice president Gustavo Bell Lemus (1998-2002) in place. Santos noted that the negotiating teams were scheduled to discuss key points including the issue of reparations to victims and the end of the armed conflict.

Meanwhile, 'Pablo Beltrán' (Israel Ramírez Pineda), the leader of the ELN's peace negotiating team, said that the group was open to discussing an extension of the ceasefire. Beltrán said that the ELN would first seek to evaluate whether the ceasefire had been instrumental in advancing the peace negotiations. Beltrán said that the negotiations were not moving as quickly as the ELN had hoped, noting that it wanted to "take these talks to a point where the incoming government, whichever it turns out to be, will not be able to turn back". Beltrán added that if the Santos government wanted to extend the ceasefire, it would have to "offer more" in the dialogue table.

But just hours after the expiry of the ceasefire, ELN fighters launched a series of attacks on oil infrastructure and the security forces in eastern and central areas of the country. There were bomb attacks targeting the Caño Limón-Coveñas oil pipeline, Colombia's main pipeline, in the eastern Arauca department. But there were also other attacks targeting infrastructure from the state-owned oil firm Ecopetrol in the central departments of Casanare and Boyacá; while a soldier was shot dead in Arauquita, Arauca, when his battalion was fired upon by an ELN column.

The violence prompted an immediate reaction from Santos. In a statement issued that same day, he ordered the negotiating team led by Bell to suspend its participation in the talks and return to Bogotá. Santos said his government would now "evaluate the future" of the peace negotiations. This has raised concerns that the breakdown of the talks may be imminent and that there will be an upsurge in violence in the run-up to the elections after Santos also said that he has ordered the armed forces to "forcefully respond to this aggression".

Morales pledges health sector overhaul

President Evo Morales began the New Year with promises to overhaul the country's health system in order to provide Bolivians with universal access to health care. His pledges, which follow plaudits from the World Health Organization (WHO) regarding existing progress vis-à-vis health services, were overshadowed, however, by a strike staged since late November by doctors and health care professionals over changes to a new criminal code approved last year which relate to malpractice.

Declaring health to be a "human right and not a commodity", President Morales announced plans on 1 January to establish a free national healthcare model which would allow all Bolivians to access health care – a move hailed on 6 January by WHO president Tedros Adhanom. Two days later Morales announced that a national health care summit would take place between 5 and 6 March in Cochabamba, the capital of the eponymous department.

Morales's declared plans come as the Movimiento al Socialismo (MAS) government has trumpeted recent progress with regard to healthcare. In late October, the WHO recognised that Bolivia had improved its health services by 20% between 2008 and 2016 – five times more than the average for the rest of the region. Health Minister Ariana Campero attributed this improvement to government policies and, in particular, two programmes which have been implemented in recent years – Bono Juana Azurduy (BJA) and Mi Salud, which launched in 2009 and 2013 respectively. BJA provides cash transfers to families with pregnant women and/or mothers of children below two years of age without health insurance, while Mi Salud provides free preventative health care services conducted through door-to-door visits by healthcare professionals. According to a health ministry press release issued this year, 2,714 doctors are contracted to carry out these visits across the country.

Crucial to providing these services has been an increase in state investment. On 7 January, Morales said that in 2005 – the year before he took office – the state budget for health was just B\$2.77bn (US\$400m) while, in 2018, this is due to reach B\$18.8bn. He added that this had enabled the government to increase the number of healthcare centres from 2,870 in 2005 to 3,902 currently, with plans to construct a further 49 new hospitals by 2020, with an investment of US\$1.7bn. These improvements in healthcare provision have led the government to boast of progress such as a 60% reduction in the mortality rate of children under five years – from 27 cases per 1,000 children in 2006 to 15 per 1,000 in 2016.

Strike

Morales's promise to improve healthcare services further coincided with a medical strike over various complaints. These included changes to the criminal code, approved by congress on 12 December 2017, especially Article 205 which sanctions doctors found guilty of negligence with prison sentences of two to four years, fines, and suspension of their licence to practice if their actions cause injury. Convictions would be increased to between three and six years if this negligence results in death. A further bone of contention was a supreme decree passed in November 2017 setting up a new oversight authority, Asinsa.

After weeks of talks, Bolivia's medical association (Colegio Médico) – which had complained that these measures criminalise the profession – announced on 8 January that it was ending the strike after reaching a deal with the government. Under the deal, Articles 205 and 137 (which relates to malpractice in the transport sector) of the criminal code were repealed, along with the supreme decree. The two sides also agreed to draw up a general health law and set up an institute to arbitrate in the case of conflicts relating to the sector.

Missed appointments

Last month the health ministry reported that, as a result of the strike by the medical sector, 2,000-3,000 people were not being seen at public health centres on a daily basis.

The exodus continues

Cabinet ministers just keep leaving the government led by President Michel Temer. Last week, the trade minister, Marcos Pereira, became the fourth minister to resign in the space of two months. More are expected to follow his lead as politicians prepare for the October general election.

Those running in the next election must relinquish their government positions before 7 April (six months prior to the first round) under Brazil's electoral law. Long before that cut-off point, several ministers have already handed in their notices, leaving Temer looking increasingly isolated.

Some ministers chose to end on a high, like Pereira who resigned after announcing that Brazil had posted a record trade surplus in 2017 of over US\$67bn (*see sidebar*). Others left on a less positive note. The two ministers who quit at the tail end of 2017, former cities minister Bruno Araújo and former government secretary Antônio Imbassahy, came under pressure from their party, the Partido da Social Democracia Brasileira (PSDB), to break off ties with an unpopular president.

Foreign Minister Aloysio Nunes accused PSDB party leader Geraldo Alckmin of prioritising the elections over Temer's reforms. "Of all the presidential contenders...who represent centrist reforms, Alckmin has the greatest electoral appeal," he argued. Nunes is the last standing PSDB member in government. He has so far remained loyal to Temer amid growing speculation that he will step down in April to compete in the elections.

All this has proven headache-inducing for Temer, who will be forced to call another cabinet reshuffle. His usual approach for filling cabinet vacancies has been to tap congress for influential legislators. This has allowed him to make strategic nominations by shoring up support for his legislative reforms in exchange for ministerial positions.

But with the legislative elections coming up, it is becoming increasingly difficult to find strong ministerial candidates in congress. This puts Temer in a bind. Not only does it leave him with a shortage of cabinet staff but also reduces his negotiating power with congress, leaving important reforms such as the pensions bill in the lurch.

The magic solution to Temer's recruitment problem seemed to come in the shape of former federal deputy Cristiane Brasil. She was nominated for the post of labour minister, having decided not to run for re-election in congress. Moreover, as the daughter of Partido Trabalhista Brasileiro (PTB) president Roberto Jefferson Brasil she could have helped Temer to win favour with the so-called *centrão* block of centrist parties in congress.

But that move seems to have backfired. Before Brasil could even start the new job, a federal judge suspended her handover ceremony which was scheduled for 9 January, arguing that she was morally unfit to run the labour ministry. The legal challenge came after the national press revealed that Brasil had flouted local labour laws in 2016 when she was sued R\$60,000 (US\$18,514) for not paying overtime to a driver she had employed who worked 15-hour days. Another woman who worked under Brasil, when she was city councillor for Rio de Janeiro (2005-2015), Aline Lucia de Pinho, alleged that she was the victim of unfair dismissal according to local weekly *Exame*.

Trade surplus

In 2017, Brazil posted a trade surplus of US\$67bn, the best result recorded in the past 29 years.

Exports grew by 18.5% in 2017 from the previous year to US\$217.74bn, with China being the largest importer of Brazilian goods, followed by the US and Argentina.

Imports to Brazil also increased for the first time in three years, signalling that the domestic economy is picking up.

The prison with a law of its own

The president of Brazil's supreme court (STF), Justice Carmen Lúcia Antunes, was forced to call off a planned inspection of the Colonia Agroindustrial prison due to lawlessness. She had been warned about the risk of explosives, grenades, and prisoners armed with firearms.

Temer has defended Brasil, arguing that the judiciary should not meddle in executive affairs. The dispute now passes to the supreme court (STF) which has the final say over whether Brasil can join his government.

Temer's current difficulties in appointing a labour minister are a mere trifle compared to the recruitment problems he will face over the coming months. Of his 28 ministers, 11 are almost certain to resign and another three will probably quit, according to a survey by independent news site Poder360. This includes the finance minister, Henrique Meirelles, who is touted as a possible presidential contender even though he only has around 1% of voter intentions in recent polls. The high turnover in Temer's cabinet will weaken his administration over the coming year and could disrupt policymaking if the new ministers are not well respected in their fields.

BRAZIL | SECURITY

Goiás: a tragedy foretold

In Brazil, last year's tragedy has rolled over to the next. At the start of 2017, over 120 inmates died in a series of prison riots across the states of Amazonas, Roraima, and Rio Grande do Norte. This year, the bloodletting took place in Goiás state when nine prisoners were murdered and another 14 injured at the Colonia Agroindustrial semi-open prison, exposing the unfixed cracks in Brazil's penal system.

The ringleaders behind the latest riot came from rival drug-trafficking organisations, São Paulo's Primeiro Comando Capital (PCC) and Rio de Janeiro's Comando Vermelho (CV), who declared war on one another in 2016. They are not just vying for control of Brazil's principal drug routes but also the country's prisons, which double up as recruiting grounds for new traffickers. "These factions dominate prisons in the whole of Brazil, including Goiás. They compete for space on the market in and out of the prisons," the state secretary for public security and prison administration, Ricardo Balestreri, said.

Goiás's geographical location means it is hotly disputed by traffickers given its proximity to the capital Brasília, where there is strong demand for cocaine from middle-class consumers. Additionally, the police presence in Goiás is lower than the federal district, making it easier to store drugs before they are sold.

The PCC appears to have lost the most recent battle, with CV members accounting for seven of the nine fatalities at the Colonia Agroindustrial prison. Some victims were decapitated, gutted, or charred in a display of intimidation technique by the PCC. While the killings took place, dozens of prisoners broke out of jail.

In the aftermath of such butchery, state authorities in Goiás warned about the risk of reprisals. They fear a repeat of last year when 56 inmates were killed in a massacre by the CV's ally Família do Norte (FN) in Manaus (capital of Amazonas state) on New Year's Day. Two weeks later, the PCC avenged the crime by killing a further 26 prisoners at a separate enclosure in Rio Grande do Norte, triggering another wave of riots. However, federal authorities have downplayed the risk of further violence, with Justice Minister Torquato Jardim calling the massacre in Goiás an "isolated" incident.

The most recent riot once again exposes the serious problems with Brazil's penal system, such as the dominance of criminal organisations, precarious infrastructure, rampant overcrowding, and terrible conditions described by human rights groups as medieval, all of which create a pressure cooker for violence.

With the current system in crisis, politicians are debating whether putting criminals in prison is still an effective way to combat crime. For members of

Didi Chuxing

Chinese company Didi Chuxing has acquired Brazilian transport start-up 99 Taxi, as part of its expansion plan to challenge Uber's dominance in Latin American markets. This means Taxi 99 joins Brazil's elite rank of 'unicorn' companies or start-ups worth over US\$1bn, according to the business newspaper *Exame*. The company has 14m users and 300,000 drivers in Brazil and was the first local transport service to offer rides for women only following a series of public security scares.

Brazil's extreme Right, incarceration is too soft. Those in the "bandido bom é bandido morto" (the only good criminal is a dead one) camp, led by presidential hopeful Jair Bolsonaro from the Partido Social Cristão (PSC) party, want to reintroduce more extreme measures. His proposal to bring back the death penalty is backed by 57% of Brazilians, according to a survey by pollster DataFolha published on 8 January.

At the opposite end of the spectrum, liberal thinkers advocate freeing more prisoners to reduce overcrowding. In an interview with Spanish newspaper *El País*, criminal lawyer Jamie Fusco suggested criminals charged with trafficking should be able to negotiate more lenient sentences in exchange for information. His argument was inspired by the use of plea bargaining testimonies to tackle white collar crime as part of 'Operation Car Wash'. However, the argument remains controversial given the high risk that organised crime groups could carry out their own form of justice if traffickers rat on them to the state.

ARGENTINA | POLITICS & ECONOMY

Adjusting economic targets, monetary policy?

The government led by President Mauricio Macri is under mounting public pressure to deliver solid economic growth and rein in inflation, which remained stubbornly high in 2017. Achieving these dual objectives will be difficult and the government has adjusted its targets. Yet this has produced some divisions between the government's economic team, and the central bank (BCRA). The challenge for Argentina's economic authorities is to re-balance their objectives to preserve unity and restore market confidence in their general policy direction.

Despite President Macri's promises that the major 'economic adjustment' his government has implemented since he took office in 2015 would bring inflation under control and lead the country back on the path of sustainable economic growth, inflation has not been tamed in recent years. The latest figures from the national statistics institute (Indec) suggest that the inflation rate is running at around 21% (and that 2017 year-end inflation could be as high as 25%). The Macri administration had said that the inflation rate would fall to more acceptable levels in 2017. The BCRA set an inflation rate target of 17% for 2017 and projected that it would fall to a manageable 10% by 2018 (and 5% by 2019).

The persistently high level of inflation has been stoking social discontent, as this makes the economic reform measures promoted by the Macri administration even more painful for the general population. The clearest sign of this was the violent protests staged against the approval of the pension reform [[WR-17-12](#)]. This along with the consistently contractionary monetary policy adopted by the BCRA to counteract high inflation makes the implementation of some of the government's other planned measures more difficult as it amplifies their negative impact and constrains domestic economic activity (*see sidebar*).

Against this backdrop, on 28 December 2017 BCRA president Federico Sturzenegger, Treasury Minister Nicolás Dujovne, and Finance Minister Luis Caputo offered a joint press conference in which they announced adjustments to the official economic targets for 2018. The conference came after days of reports of strong differences of opinion between government and BCRA officials over what the inflation target should be and demands by the government for the BCRA to cut its sky-high benchmark interest rate (Lebac) to help further stimulate domestic economic activity. Indeed, the local press was awash with rumours that the staunch monetary hawk Sturzenegger was considering quitting over the pressure being exerted on him to ease monetary policy.

Transport fares up

As part of its economic adjustment plan, on 3 January the Macri government announced that public transport fares (including bus, metro, and train fares) in the Buenos Aires metropolitan area are to increase by between 25% and 50% from February. The government said that the fare increase would allow it to invest in the public transport system to make it more reliable. But the announcement, which will affect some 13m people, was met with anger by many commuters who complained that the fare increases will further erode their purchasing power, already hit hard by the high inflation rate. The fare increases will drive up inflation, as will the planned energy tariffs due later in the year.

In the event the officials announced that, after careful review, they had decided to adjust the official year-end inflation target for 2018, lifting it from 10% to 15% to better anchor market expectations. This adjustment should allow the BCRA to ease its monetary policy slightly in support of domestic economic growth.

The joint press conference was designed to portray unity of thought and purpose among the economic authorities. It failed to achieve this, however, as the officials presented differing views on the state of the country's economic affairs: Sturzenegger insisted on the need to maintain a tight monetary policy to contain inflation; the government ministers pointed out that the Macri executive intends to continue spending in support of the economy (producing inflationary pressure).

During its first monetary policy meeting of the year, the BCRA further highlighted its differences of opinion with the Macri executive by deciding to cut its Lebac rate by just 75 basis points to 28%. An interest rate slash was widely expected following the 28 December press conference. But the Lebac cut announced by the BCRA was well below market expectations, which predicted a cut of at least two percentage points (200 basis points) in line with reports that the Macri executive had been pressuring for a significant reduction in the Lebac rate to stimulate domestic investment. The 75-basis point interest rate cut may help to reinforce the notion of BCRA independence, but it has done little to convince the market that the economic authorities are following a coherent and complementary set of economic policies.

URUGUAY | POLITICS & ECONOMY

Vázquez confronts conflictive start to year

The government led by President Tabaré Vázquez faces a challenging start to 2018. Uruguay's trade union movement staged a partial general strike on 9 January over violence and is planning a mass mobilisation in late February. But it is the threat of protest action by the powerful rural sector that is causing greater concern in government circles, as an agricultural strike would damage economic growth.

Plenario Intersindical de Trabajadores-Convención Nacional de Trabajadores (PIT-CNT), the main trade union movement, organised the strike in the wake of the murder of a transport union leader in the northern department of Rivera. Marcelo Silvera was shot dead on 2 January by a truck driver from his own Sindicato Único del Transporte de Carga y Ramas Afines (Sutcra) union who he had pursued in order to reprimand for defying a strike it had called for that day.

Sutcra staged a 24-hour strike on 9 January. It was also joined by the taxi drivers' union Sindicato Único de Automóviles con Taxímetro y Telefonistas (SUATT), which protested against the murder of one of its drivers on 3 January. Health services were also disrupted as medical workers in the Federación de Funcionarios de Salud Pública (FFSS) went on strike for 12 hours, and banks closed early.

The PIT-CNT said it would hold talks with social organisations and human rights groups about staging a major mobilisation in late February urging the government to strive to establish "a culture of peace" in Uruguay. The union also condemned domestic violence, in particular the two femicides in the opening days of 2018. There were 30 femicides in Uruguay last year, the fifth highest annual total in Latin America and the Caribbean.

Exports booming

Uruguayan exports increased by 9.2% in 2017, totalling US\$9.06bn, according to the foreign trade agency Uruguay XXI. This is the highest volume of exports since 2011, and it follows three years of a stagnation of exports. Export growth was driven by soya, lumber, cellulose, and meat products. Meat exports grew by 5.5% on 2016, and were the country's principal export in 2017, totalling US\$1.52bn. The volume of meat exports increased by 4% and the average price by 1.5%. China was the main destination for Uruguayan exports, absorbing 28% of the total, followed by the European Union (EU) with 16%, Brazil (13%), and the US and Argentina (6% apiece).

The government is no stranger to protests over violence. The political opposition has repeatedly summoned the interior minister, Eduardo Bonomi, to appear before congress, where he endures a grilling but evades censure thanks to the narrow majority of the ruling left-wing Frente Amplio (FA) coalition. That the PIT-CNT, its hectoring ally, is now taking up the issue will give the government pause for thought, although this could be attributed in part to its success at bringing down inflation, stripping the union of its main cause for protest. The consumer price index fell by 0.31% in December bringing inflation for 2017 to 6.55%, according to the national statistics institute (INE), its lowest level since 2009.

The bigger immediate concern for the government is a standoff with the large rural lobby groups, as agriculture is the country's principal export sector (*see sidebar*). The three main agricultural organisations - Federación Rural (FR), Asociación Rural (ARU), and Cooperativas Agrarias Federadas (CAF) - are flexing their muscles. They have been critical of the agriculture & livestock minister Tabaré Aguerre, who has held the position since March 2010, for failing to do enough to protect the sector amid climatic challenges and a squeeze on profits due to falling prices and mounting costs.

In a sign of the government's concern, President Vázquez fiercely denied media reports that it had postponed a meeting with the three organisations, meant for December, until 23 February. He said a date for the meeting would be agreed next week. Independent agricultural producers are threatening to block roads, affecting tourism and other producers transporting perishable goods, to put pressure on the government. The FR, ARU, and CAF expressed their sympathy with independent producers but opposed the blocking of roads.

TRACKING TRENDS

ARGENTINA | Budget. On 28 December 2017 Argentina's congress approved a draft 2018 national budget for Ar\$2.72trn (US\$145.5bn), a 1.5% increase compared with the 2017 budget. The draft budget plan seeks to increase government spending by 15.1% compared with 2017 but at the same time reduce the primary fiscal deficit from the 4.5% posted last year to 3.2% by stimulating increased domestic economic growth and private sector investment.

The 2018 budget is based on a GDP growth forecast of 3.5% after the country posted growth of 3% last year on official figures. The budget's inflation forecast for year-end 2018 is 15.7%, while the average exchange rate projection is Ar\$19.30/US\$1.

BRAZIL | Petrobras. Brazil's state-owned oil company Petrobras has agreed to pay US\$2.95bn to settle a class action lawsuit in the US. The case was brought by US investors who say their holdings lost value after Petrobras became embroiled in a bribery scandal exposed by 'Operation Car Wash'. This is subject to review by the US District Court for the Southern District of New York (SDNY).

The settlement could spark another lawsuit in Brazil from local shareholders demanding similar reparations from Petrobras to the US settlement.

BRAZIL | Meat exports. Despite a public backlash from the food sanitation scandal 'Operação Carne Fraca', meat exports remained roughly the same in 2016 and 2017. This shows the sector has made a robust recovery after 70 countries imposed some kind of trade restriction on Brazilian meat products after the scandal implicating major companies such as JBS and BRF broke last March.

In 2017, Brazil exported 6.557m tonnes of meat compared with 6.558m tonnes in 2016. The value of exports rose to US\$15.06bn last year, up from US\$13.89bn in 2016.

Independents

Jaime 'El Bronco' Rodríguez Calderón took leave of absence as governor of the north-eastern state of Nuevo León on 1 January in order to seek the presidency. Manuel González Flores was sworn in as governor in an interim capacity. Rodríguez is the only independent aspirant so far to exceed the 866,593 signatures (1% of the federal electoral roll) needed to stand as a candidate, but he is still some way from meeting the requirement that a quota of these signatures should be collected in at least 17 different states. Margarita Zavala has nearly met the total number of signatures (having collected almost 800,000) but is also yet to fulfil the quota requirement.

López Obrador buoyed by rivals' travails

Andrés Manuel López Obrador, the early frontrunner in the presidential race concluding on 1 July, is in a strong position to extend his lead. This is not because of anything that he has done but rather because of developments damaging the prospects of his principal rivals: Ricardo Anaya and José Antonio Meade. A prominent defection from the right-wing Partido Acción Nacional (PAN) underscores the difficulties Anaya faces to preserve any kind of unity between disaffected factions within the broad coalition for which he is standing. The combination of a corruption scandal uncovered in the northern state of Chihuahua and the highest annual inflation rate since the turn of the millennium will hit the federally ruling Partido Revolucionario Institucional (PRI), harming Meade.

López Obrador, the presidential candidate of the radical left-wing Movimiento Regeneración Nacional (Morena), topped an opinion poll conducted in mid-December by Parametría, with 31% of the vote, followed by Meade on 20%. Anaya, the candidate of Por México al Frente, the tripartite coalition between the PAN, and the left-wing Partido de la Revolución Democrática (PRD) and Movimiento Ciudadano (MC), was third on 19%.

The poll also included two independent aspirants: Margarita Zavala, the wife of former president Felipe Calderón (2006-2012), and Jaime 'El Bronco' Rodríguez, Mexico's first independent governor, who finished with 10% and 2% respectively. This indicates the impact on Anaya of Zavala's decision to abandon the PAN late last year. Zavala and Rodríguez have yet to meet all the prerequisites to be entitled to stand as independent candidates in the presidential elections but both of them should jump through all of the hoops in time (*see sidebar*).

Anaya

Since the survey was carried out both Anaya and Meade have experienced some significant setbacks. Senator Javier Lozano quit the PAN on 9 January denouncing "the imposition of a young dictator [Anaya], imitating the worst practices we have criticised so much in other parties". Lozano also slammed the alliance with the PRD and MC "the most retrograde elements of the left". A former labour minister under Calderón (2006-2011) when he worked alongside Meade, Lozano promptly became a spokesman for the PRI presidential candidate.

Anaya was confirmed as the presidential candidate of the Por México al Frente coalition, two days before Lozano left the PAN, after no rival emerged in time to challenge him in PAN primary elections scheduled for 11 February. The PAN and PRD have been a highly successful double act in gubernatorial elections, delivering some telling blows on the PRI, but there is considerable doubt about how fervently the PRD will campaign on Anaya's behalf. Lozano also predicted that many PAN members would vote for Meade, or for Zavala, rather than Anaya.

Meade

Meade is likely to be impacted indirectly by two blows sustained by the PRI, both the political party and the federal administration led by President Enrique Peña Nieto. The first of these involves a convoluted corruption case. The PAN governor of the northern state of Chihuahua, Javier Corral, made

Borge extradited

The former governor of Quintana Roo state, Roberto Borge (2011-2016), was extradited to Mexico from Panama on 4 January. Borge stands accused of money laundering to the tune of M\$900m (US\$46.7m). The federal attorney general's office (PGR) alleges that he sold off 22 state-owned properties to relatives, principally his mother, Rosa Yolanda Angulo Castilla, and associates, flouting the normal administrative procedures, and at well beneath commercial value.

an explosive claim on 8 January. Corral accused the federal finance ministry (SHCP) of refusing to transfer M\$700m (US\$36.4m) of federal funds due to the Chihuahua state government in December 2017, to cover official salaries and Christmas bonuses, in order to punish it for refusing to bury a compromising corruption probe.

The investigation in question is being conducted by the Chihuahua state attorney general's office. It started off as seeking to lay bare the extent of the corruption perpetrated by Corral's PRI predecessor César Duarte (2010-2016), a fugitive from justice, but it has since expanded to expose alleged electoral fraud by the PRI and possible complicity of the SHCP.

The investigation in Chihuahua would have gone down as yet another local corruption scandal, like those implicating the former PRI governors of Veracruz and Quintana Roo (*see sidebar*). That was until the authorities in Chihuahua arrested Alejandro Gutiérrez on 20 December. Gutiérrez was a close confidant of PRI grandee Manlio Fabio Beltrones, who stepped down as party president in June 2016.

Corral claimed that Gutiérrez, who stands accused of aggravated embezzlement, was the mastermind behind "an elaborate corruption scheme". Corral alleged that, at the start of 2016, M\$250m (US\$13m) of federal funds from the SHCP to the Chihuahua state government, then under Duarte, had gone to ghost companies who "ostensibly provided professional service contracts that were never carried out".

Corral said that investigations had shown the diversion of these funds to PRI party coffers in states where the party was in opposition ahead of gubernatorial elections in July 2016. He alleged that the same thing had happened in Tamaulipas and Veracruz, where PRI governors also held sway at the time. But the PRI was turfed out of power in all three states, which allowed traces of the triangulation of the federal funds to PRI electoral campaigns to be unearthed in subsequent corruption investigations.

Corral said that his government would not "negotiate this investigation for either the M\$700m [of federal funds he claims have been withheld from it] or all of the Chihuahua budget". He added: "The government of Chihuahua has acted against corruption, and the government of Peña Nieto has acted against the people of Chihuahua. They did not want to arrest César Duarte but they arrested the resources that we need to keep bailing out state finances".

Corral claimed that Chihuahua was the only one of Mexico's 32 states not to receive the federal funds it was owed. "They are strangling us economically," he said. Corral said that he had sought an explanation for the decision to withhold the funds from the federal finance minister, José Antonio González Anaya, during a meeting on 4 January in the national palace but had been given an inadequate response. As such, Corral said that his government would appeal in due course to the supreme court for redress.

Peña Nieto rejected the claim that his government had denied federal funds to Chihuahua, and he accused Corral of electorally motivated accusations. The SHCP, meanwhile, said it had acted "in strict adherence to the impartiality enshrined in the constitution", insisting it had "never been influenced at any time by electoral matters or pressured in any way by partisan considerations". It also maintained that the Chihuahua state government received M\$23.29bn of federal funds in 2017, up 8% on the previous year.

Former PRI president Beltrones took legal action this week appealing against an arrest order for his alleged involvement in the diversion of federal

Electoral violence

There was a spate of electoral violence over Christmas and the New Year. Five politicians were murdered, four of them belonging to the left-wing PRD. Saúl Galindo, a PRD deputy and president of the congressional justice committee in the western state of Jalisco, and Arturo Gómez Pérez, the PRD mayor of Petatlán in the south-western state of Guerrero, were both shot dead in separate incidents on 28 December. Two days later, Juan José Castro Crespo, a PRD candidate for state deputy in the border state of Baja California in the 2016 state congressional elections, was shot dead in Mexicali, the state capital. On the same day, Gabriel Hernández Arias, a local councillor for the PRD in Jalapa, in the south-eastern state of Tabasco, was found stabbed to death in his house.

resources to finance the party's electoral campaigns illegally. He said that what was being printed in the newspapers was "very far removed from the truth", and that his reputation was being dragged through the mud because it was electoral season. But if any of the mud sticks, it will impact the PRI's chances of retaining power through Meade.

Inflation soars

Meade's prospects could also be harmed by escalating inflation. The consumer price index rose by 0.59% in December, bringing inflation in 2017 to 6.77%, its highest annual level since 2000, due to food and energy price increases, according to the national statistics institute (Inegi). This is much higher than the annual target of 3% set by the central bank (Banxico).

Biting inflation is never a good thing for any government but in an electoral year it has the potential to be particularly damaging. It is no wonder that the government was at pains to deny speculation in a statement by the Asociación Mexicana de Empresarios Gasolineros (Amegas) released on 2 January that fuel prices could jump by up to 7% this month. Precisely one year earlier, fuel price increases, dubbed the *gasolinazo*, led to fatal protests, and contributed in no small part to the high annual inflation rate.

The state-run oil company Pemex promptly released a statement dismissing the Amegas rumours as "completely groundless" and appealing for "prudence" while urging the need to "avoid misinformation about such a sensitive issue". The federal government released a statement of its own shortly afterwards in which it insisted that "the prices of petrol and diesel are being determined by individual stations and not by the government". It also hinted very strongly, however, that measures would be taken to prevent fuel prices escalating in the run-up to the elections by adding that "in the transition to a free market for fuel, variations in international prices will continue to be mitigated by means of the IEPS [excise] tax".

Meade, a former finance minister under Peña Nieto, was questioned about potential fuel price increases during an interview in the north-central state of Aguascalientes. Rejecting the soubriquet "the father of *gasolinazos*", Meade tried to switch the attention instead to López Obrador for his "terrible idea" of offering an amnesty to organised criminal groups in Mexico in a bid to improve public security.

Meade said that "the rule of law and not impunity" would lie at the heart of his public security policy if he wins July's election. He also dismissed out of hand López Obrador's "totally Manichean" suggestion that he could bring an end to the war on drugs within three years and restore peace to Mexico. Meade said that Mexicans wanted to hear "reasonable and serious proposals", adding that "ending drug-trafficking is not possible" and the goal should be "diminishing it substantially".

Ending violence

López Obrador made his bold promise to restore peace in Mexico by 2021, while announcing his security proposals at the turn of the year. López Obrador, who said that Mexico was enduring "the worst violence since the Revolution", presented his proposed public security minister, Alfonso Durazo. President Peña Nieto discontinued the public security ministry when he took office in 2012, a decision López Obrador denounced as misguided.

When questioned about López Obrador's offer of an amnesty to organised criminal groups, Durazo, who served in both PRI and PAN federal governments, replied that "given the scale of the insecurity problem in Mexico, the solutions are not easy".

Hernández prepares to take office**IMF endorsement**

Back in November 2017, ahead of the election, the Honduran government received praise from the International Monetary Fund (IMF), following a visit by an IMF mission the previous month. In an IMF press release, the Fund's Acting Chair and Deputy Managing Director Tao Zhang noted that "the macroeconomic outlook is positive, with the fiscal deficit at historic low levels, international reserves at historic highs, and inflation remain[ing] subdued". The IMF is forecasting 4% GDP growth for Honduras for 2017, third only to Panama (5.3%) and Nicaragua (4.5%) in Central America.

At the start of the New Year, President Juan Orlando Hernández announced that he would mark his assumption of office on 27 January for a second term with a "simple ceremony". His efforts to draw a line under the controversial presidential election on 26 November come as the electoral authorities (TSE) last week confirmed his narrow victory (42.95%-41.42%) against Salvador Nasralla, of the Alianza de Oposición contra la Dictadura, after rejecting appeals against the result. The US government's decision, announced last month, to recognise Hernández's victory could prove decisive, with other key countries following suit. However, Nasralla continues to dispute the result, emboldened by the stance of the Organization of American States (OAS).

Nearly a month on from the contentious election, the US State Department congratulated Hernández on his victory on 22 December – days after Mexico and Colombia had done so [WR-17-50]. In a press release it acknowledged "the close election results, irregularities identified by the OAS and the EU [European Union] election observation missions, and strong reactions from Hondurans across the political spectrum" which it said "underscore the need for a robust national dialogue."

As well as the US, Mexico, and Colombia, other countries to have recognised Hernández's victory include Germany, France, Italy, Spain, and the UK. In South America, Argentina, Brazil, Ecuador, and Peru have recognised his triumph, while in Central America, only Nicaragua has yet to follow suit. In what came as a further endorsement for Hernández – particularly given fears regarding the impact of the political crisis on economic stability – Alejandro Werner, the director of the Western Hemisphere Department for the International Monetary Fund (IMF), congratulated him on his victory on 7 January and reaffirmed support to accompany the economic programme for the new presidential period (*see sidebar*).

OAS remains firm

Efforts by Hernández and the TSE to draw a line under the controversy continue to meet with obstacles though. On 4 January Luis Almagro, the Secretary General of the OAS, called on member states to approve the report by the electoral observer mission (OAS/EOM). The report was unequivocal that irregularities observed in the electoral process made it impossible to determine a clear winner of the presidential election.

Meanwhile the Trump government might have recognised Hernández's victory but other figures within the US political establishment continue to raise concerns. On 5 January Ben Cardin, Ranking Member of the Senate Foreign Relations Committee, and Eliot Engel, Ranking Member of the US House of Representatives Foreign Affairs Committee, released a joint statement expressing "deep concern" about the legitimacy of the election given "overwhelming evidence of widespread irregularities documented by the OAS and EU electoral observation missions", (although it is worth pointing out that the EU has since endorsed the result).

Opposition response

That the opposition will continue to put up a fight was suggested in a statement released on 5 January by Partido Libertad y Refundación (Libre), one of the main parties in the Alianza Opositora, which announced a new opposition bloc to campaign against what it claims is Hernández's illegal victory.

Press freedom concerns

In their 20 December statement the human rights experts also expressed concern about attacks on and arrests of journalists during the coverage of protests. On 9 and 10 December, *Radio Progreso*, a community station known for its independence and defence of democracy, reported the sabotage of its tower and antenna in Tegucigalpa. The radio station lost its signal in the central region of the country. The experts called for an urgent investigation into the attack on *Radio Progreso* and for the safety of its journalists and workers to be guaranteed.

The following day, thousands took to the streets in San Pedro Sula, the country's second city and industrial hub, in protest at the result. As well as the unrest – which is set to continue with a week-long national protest announced as of 20 January – Alianza Opositora's coordinator, the ousted former president Manuel Zelaya (2006-2009), is also calling for the creation of an "investigating commission" to determine what went on in the election, although he has not provided details.

Concerns about violence

Libre is also calling for Hernández to be investigated for human rights violations, claiming that, since the election, 30 extrajudicial executions have taken place, while 200 people have been injured and 80 arrested. In its most recent report, released on 29 December, the local human rights commission (Conadeh) reported that 31 people had been killed in post-electoral violence, while on 6 January Nasralla put the death toll since the election at 38.

These concerns have attracted international attention. The statement by Cardin and Engel also expresses concern about "the extrajudicial killings of protesters committed by the Honduran Military Police and other incidents of violence that have occurred across Honduras since the election". Meanwhile, in a statement dated 20 December, human rights experts from the United Nations (UN) and Inter-American Commission on Human Rights (IACHR) condemned the killing of at least 12 protesters in Honduras and the detention of hundreds of others. The three were David Kaye, UN Special Rapporteur on the promotion and protection of the right to freedom of opinion and expression; Michel Forst, UN Special Rapporteur on the situation of human rights defenders; and Edison Lanza, IACHR Special Rapporteur for Freedom of Expression. The statement expressed alarm about the "illegal and excessive use of force to disperse protests, which have resulted in the deaths of at least 12 protesters and left dozens injured". It goes on to note that "Hundreds of people have also been detained, many of whom have been transferred to military installations where they have been brutally beaten and subjected to torture and other forms of ill-treatment".

Aligning itself with the US over Israel

Cynics have been quick to link the US government's endorsement of President Hernández's victory with Honduras's support for the US in a vote which took place on 21 December at the UN. The vote was on whether to condemn President Trump's decision announced the same month to recognise Jerusalem as Israel's capital. Honduras was one of nine countries (along with the US and Israel) to vote against a resolution adopted by a recorded vote of 128 in favour with 35 abstentions, in which the 193-member General Assembly expressed "deep regret" over "recent decisions concerning the status of Jerusalem". As well as Honduras, Guatemala also sided with the US, and the government led by President Jimmy Morales announced three days later that, like the US, it would move its embassy to Jerusalem.

As well as seeking US endorsement of Hernández, some also discern behind Honduras's support in the UN vote continuing doubt over Temporary Protected Status (TPS) – a benefit conferred on those fleeing countries afflicted by war or natural disasters to live and work legally in the US (although it is not a pathway to citizenship). Late last year the US Department of Homeland Security (DHS) announced the termination of TPS for Nicaragua and Haiti. This week the DHS revealed a similar decision regarding El Salvador, affecting some 200,000 people (many of whom have lived in the US since TPS was granted after a devastating earthquake in 2001), who will have to return to their native country within 18 months.

Back in November, then Acting DHS Secretary Elaine Duke found that "additional information" was necessary regarding the TPS designation for Honduras, which benefits between 57,000-61,000 Hondurans in the US. She said that she had "made no determination regarding Honduras at this time". As a result, the TPS designation for Honduras (granted in 1998 following Hurricane Mitch) was automatically extended for six months from the latest rolling expiry date of 5 January 2018 to 5 July 2018.

POSTSCRIPT

Quotes of the week

“The last 30 days have probably been unprecedented in our political life. We are confronting tense times now but we must opt for understanding to restore stability to our country.”

Peru's President Pedro Pablo Kuczynski.

“In 2017 we endured the most serious aggression the Bolivarian Revolution has ever seen. The extremist opposition tried to foment violence in Venezuela and lead us into a civil war...to justify a military intervention. The national constituent assembly brought peace. It was a blessing for the country.”

Venezuela's President Nicolás Maduro.

“We've struck upon the modus operandi of political corruption in Mexico which the whole country is talking about, except that we have technical and documentary evidence to prove it.”

Javier Corral, the PAN governor of Mexico's northern state of Chihuahua.

Paraguay legalises medicinal marijuana

Paraguay's President Horacio Cartes promulgated into law on 8 January a bill that legalises the use and controlled production of marijuana and its derivatives for medicinal purposes in the country. The legislation, which was approved by congress just over a month earlier, represents a major regulatory change in Paraguay, which will have an impact on neighbouring countries.

Up until now the production and use of marijuana has been completely outlawed in Paraguay. Personal cultivation will remain illegal, but there will now be regulated local production. Proponents of the new legislation argued that the growing use around the world of marijuana and its derivatives to treat certain medical conditions (such as epilepsy) warranted a regulatory change to allow the country to produce marijuana to satisfy the local demand for such products rather than having to import them.

The new law provides a legal framework for the development of medical and scientific research on the potential medicinal uses of marijuana and its derivatives for the treatment of human diseases in Paraguay. It also establishes the creation of a national programme for the medical and scientific investigation of cannabis and its derivatives (Proincumec), which advocates hope will lead to the development of a pharmaceutical marijuana industry in Paraguay.

Paraguay is the principal producer of marijuana in South America with an estimated 6,000 hectares of plantations in the country concentrated in the departments of Amambay and Canindeyú (and to a lesser extent Alto Paraná) bordering Brazil. Paraguay is believed to ship out up to 20,000 tonnes of marijuana a year, 80% of which goes to Brazil, and much of the rest to Argentina (as well as Chile and Uruguay) smuggled down the River Paraná.

Large-scale marijuana cultivation is the sole source of income for many poor farmers in Paraguay. It is hoped that by legalising the medicinal use of marijuana, the profits of drug trafficking groups will be seriously cut, but it is difficult to see how it will provide a big enough legal market to achieve the goal of eliminating black markets. Marijuana fetches an average price of US\$100 a kilo in the border black market, providing earnings of some US\$2bn for Paraguayan drug traffickers.

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