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Ortega digs in his heels as Nicaraguan violence spirals

"The worst massacre in peace times". This is how Nicaragua's opposition Alianza Cívica por la Justicia y la Democracia (comprising students, civil-society groups, and the private sector) has described the continued crackdown by President Daniel Ortega on anti-government protesters which began mid-April and has claimed over 127 lives. The Alianza Cívica's remarks were prompted by a particularly deadly episode of state repression which led Nicaragua's Catholic Episcopal Conference (CEN), the mediator in the national dialogue between the Frente Sandinista de Liberación Nacional (FSLN) government and Alianza Cívica, to suspend talks altogether. With no end in sight to the unrest; calls mounting for early elections; and several well-respected institutions publicly calling for civil rebellion, the Ortega government remains intransigent, fanning concerns that the violence is set to continue.

On 31 May the CEN announced the suspension of dialogue (which began two weeks earlier). This came after the national police (PNN) reported that 15 people had been killed in two days of protests which began on 30 May in support of the so-called 'Madres de Abril' (mothers of students killed in the unrest) which reportedly saw turnout of half a million people across the country.

A key condition set out by the CEN and Alianza Cívica for national dialogue to take place was an end to the repression against anti-government protesters which has been carried out by the PNN and pro-government thugs, as documented by human rights organisations, such as the Inter-American Commission on Human Rights (IACHR) and Amnesty International (AI), in recent visits to Nicaragua.

The continued crackdown takes place as the government agreed last month that the IACHR, a principal, autonomous body of the Organization of American States (OAS), would create an international mechanism to investigate the violence. This was one of the recommendations by the IACHR following a working visit to the country which took place from 17 to 21 May. The IACHR has proposed the creation of an interdisciplinary group of independent experts (GIEI) to assist and support the investigation of such violence. The four experts, who have yet to be appointed, will have a six-month mandate.

President Ortega has also shown no sign of heeding another demand by the CEN and Alianza Cívica: offering reforms aimed at making the country more democratic. This has long been a bone of contention given his government's various attempts at dismantling Nicaragua's democratic institutions – from the staging of elections widely slammed as fraudulent to lifting the constitutional ban on presidential re-election in 2014.

Civil rebellion

Further upping the pressure on President Ortega, on 4 June, vendors at Managua's Mercado Oriental, Central America's biggest market (comprising some 20,000 stalls) declared themselves to be in a state of civil disobedience in response to the continued government repression. This came five days after the Nicaraguan academy of sciences (ACN) and Nicaraguan academy of juridical and political sciences (ANCJP), both well-respected institutions, called for civil disobedience, suggesting measures such as withholding taxes until the Ortega government resigns.

Ortega's intransigence on this issue comes amid growing calls from various sectors for general elections (scheduled for 2021) to be brought forward. On 30 May, for example, Nicaragua's main business lobby, Cosep, as well as other private sector organisations such as the US-Nicaraguan Chamber of Commerce (AmCham), the association of Nicaraguan private banks (Asobanp), and the think-tank Fundación Nicaragüense para el Desarrollo Económico y Social (Funides) put forward this demand in an open letter. Following the crackdown which took place over 30-31 May, the European Union (EU) (which along with the US State Department condemned the bloodshed which took place at the Madres de Abril protests) also issued a statement reiterating calls for early elections, warning that it would assess "potential measures given the breaches of human rights".

OAS response

The response by the OAS to the crisis – in the form of a declaration of 'Support to the Nicaraguan People', issued on 5 June – has been slammed by local and international human rights groups for failing to go far enough. Issued on the second day of the 48th OAS General Assembly in Washington DC, the declaration calls for an "immediate end to the violence" but fails to identify the Ortega administration as responsible.

This has prompted criticism from figures such as Erika Guevara-Rosas, AI's Americas director, who on 5 June tweeted that "we expect a true regional leadership" at the OAS General Assembly, adding that "if states in the Americas ignore the Ortega government's responsibility for grave human rights violations, they will be complicit". An AI statement issued the same day notes that "President Ortega's government has not shown the slightest inclination of ending its systematic policy of violent repression".

Rivas resigns

While the government has shown no sign of ending the violence, the resignation of Roberto Rivas, the head of the electoral authorities (CSE) and a key Ortega ally, has been taken as one minor concession to the opposition.

The move was announced on 31 May by the OAS, which in February 2017 entered into a three-year agreement with the FSLN government aimed at assuaging democracy-related concerns (to little avail). Rivas has been in the post since 2000, overseeing a string of elections widely denounced as fraudulent in which the FSLN (which has been in power since 2007) has secured clear victories. Already in February, a legislative initiative was approved that significantly reduced Rivas's powers. This was in response to the December 2017 announcement by the US Treasury Department that it was sanctioning Rivas for alleged corruption in line with the Magnitsky Human Rights Accountability Act.

Yet this has failed to satisfy US legislators. On 5 June US Representative Ileana Ros-Lehtinen (R-FL) sent a bipartisan, bicameral letter to US President Donald Trump urging the administration to make additional designations in line with the act. The letter calls for similar action to be taken against Francisco López, the FSLN treasurer and the vice-president of Albanisa (the bi-national oil company owned by Venezuela's state oil firm Pdvs and Nicaragua's Petronic).

The letter also calls for PNN deputy commissioner Francisco Díaz (whose daughter is married to Ortega's son, Maurice) to be investigated to determine whether he is eligible to be sanctioned under the Global Magnitsky Act for "abusing the fundamental human rights of the Nicaraguan people and for his role in the killings of dozens of peaceful protesters". Díaz has become the de facto PNN director in the absence of Aminta Granera who resigned in late April.

Maduro's overture overwhelmingly rejected

Venezuela's President Nicolás Maduro announced at the weekend that an unspecified number of prisoners would be released as his government seeks to lure the political opposition to the dialogue table with a view to regaining some kind of credibility at home and abroad in the wake of his controversial re-election on 20 May. Maduro's move did not buy him any time. The opposition was unswayed and the Organization of American States (OAS) pushed through its first resolution on the Venezuelan crisis, condemning the presidential contest as illegitimate and taking the first step in a three-stage process to suspend Venezuela from the hemispheric body.

Venezuela's supreme court (TSJ) announced the release on 1 June of 39 prisoners put behind bars for allegedly instigating political violence. The following day, a further 40 prisoners were set free. President Maduro said that the release of the prisoners was a sign of his commitment to pursue a "process of pacification" and to seek "rapprochement and reconciliation among Venezuelans". Maduro added: "It is an act of generosity and benevolence and I hope it is interpreted as such". It was not. One of the more moderate opposition leaders, Omar Barboza, president of the opposition-controlled national assembly, a body which has been emasculated by the TSJ and the Maduro administration, argued that those released "should never had been in prison in the first place". Barboza accused the government of "an attempt to legitimise the [20 May electoral] fraud", and suggested that the 'gesture' was no more than "revolving doors". As many as 148 arrests, for instance, were made in May alone as the government cracked down on dissent.

Delcy Rodríguez, the president of the constituent assembly, the body ostensibly established by the Maduro administration to draft a new constitution but which has usurped the powers of the national assembly, made it very clear when confirming the release of the prisoners that recidivism (essentially any kind of political protest) would be severely punished. Serious restrictions on their liberty remain. They must report to a court every month; they are barred from leaving the country; and they are not allowed to speak to the media or express their views on social media.

Two opposition congressional deputies were among those released. Gilber Caro and Renzo Prieto, who belong to Voluntad Popular (VP), one of the more radical opposition parties led by the country's most high-profile political prisoner Leopoldo López, appeared before the national assembly to rapturous applause on 5 June. Despite Maduro claiming that all of those who were released had been convicted after a fair trial, Prieto spent more than four years behind bars without even being formally charged after having been arrested for his involvement in popular protests in February 2014.

Caro and Prieto were accompanied to the national assembly by two other released prisoners: Daniel Ceballos, the opposition mayor of San Cristóbal, the capital of the far western (and most pro-opposition) state of Táchira; and Raúl Emilio Baduel, the son of General Raúl Isaías Baduel, the latter a former defence minister who was imprisoned on trumped-up charges in 2017 after having already served six years in jail from 2009-2015 after turning against the Bolivarian Revolution.

The attorney general, Tarek Saab, said that further releases would be announced over the course of the week but they have dried up for now, possibly because Venezuelan authorities were caught off guard by a 10-point

Dominican response

Hours before the OAS voted in favour of the resolution on Venezuela, the foreign minister of the Dominican Republic, Miguel Vargas Maldonado, told the OAS General Assembly that his government wanted nothing but the strengthening of Venezuela's democracy for which it had "dedicated months trying to mediate between both sides [in a failed national dialogue process]".

Ecuador's exit strategy

The social economic and political situation in Venezuela has become unbearable for its citizens," Ecuador's President Lenín Moreno said. "The last electoral process, with the denunciation of 'puntos rojos' [pro-government tents erected outside polling stations], the lack of international observers, limited participation, and the absence of guarantees, leads us to propose a democratic exit for the crisis that Venezuela is going through," Moreno said. Moreno proposed that a popular consultation should be held in Venezuela "to decide whether to endorse the electoral process of 20 May or whether to stage new elections in the near future". Moreno said the consultation should be overseen by international observers with full guarantees for the opposition, but he insisted that "only the Venezuelan people can decide".

resolution approved by the OAS General Assembly on 5 June as the Bolivarian government suffered its most serious setback in the hemispheric body since coming to power in 1999. The US was joined by the 14-member Lima Group (comprising the region's most powerful countries), plus the Dominican Republic, The Bahamas, Jamaica, and Barbados in voting in favour of a tough resolution on Venezuela.

The resolution declared that the 20 May elections lacked "legitimacy, for not complying with international standards, and for being carried out without the necessary guarantees for a free, fair, transparent and democratic process". It called for "national dialogue with the participation of all Venezuelan political actors and stakeholders" to agree upon "a new electoral process that truly reflects the will of the Venezuelan citizens and peacefully resolves the current crisis". It also called for the restoration of "the full authority of the national assembly", urged the government to allow the entry of humanitarian aid, and, finally, the application of the Inter-American Democratic Charter, which will see the start of a process to suspend Venezuela from the OAS.

The US secretary of state Mike Pompeo had accused the Venezuelan government of staging "sham elections", urging member states to suspend Venezuela for "an unconstitutional interruption in democratic order". In his right to reply, Venezuela's foreign minister Jorge Arreaza said that those voting for the resolution were "also supporting a possible military intervention", adding that "the aggression against Venezuela is brutal". Arreaza then sought to downplay the whole issue, saying: "We are counting the days before we can leave this organisation". Venezuela applied to leave the OAS in April 2017, which would take effect in April next year. The secretary general of the OAS, Luis Almagro, dismissed Arreaza's comments while closing the session, saying "he represents nothing other than an illegitimate president and an illegitimate assembly".

This is just the first step. The permanent council must now convene, comprising the ambassadors of member nations to the OAS. They will vote on whether to call an extraordinary session of the General Assembly to vote on Venezuela's suspension. Both votes would require the support of 24 out of 35 member states to prosper. This will be more challenging but Venezuelan officials, despite simultaneously expressing indifference and declaring "Victory for Venezuela", will be concerned. Only four OAS members rejected the resolution: Venezuela itself, Bolivia, Dominica, and St Vincent and the Grenadines. Eleven abstained, including Uruguay, Ecuador, and even Nicaragua.

Ecuador's President Lenín Moreno offered by far the most serious criticism of Venezuela from this country since his predecessor Rafael Correa (2007-2017) came to power (*see sidebar*), although he was also critical of international economic sanctions on Venezuela, arguing that they were counter-productive. The US clearly feels, however, that Moreno can be won over in what would be a dagger blow to Maduro. US Vice President Mike Pence phoned Moreno on 4 June to discuss Venezuela and opportunities to "reinvigorate the bilateral relationship", and pointedly he will travel to Ecuador, as well as Brazil, at the end of June.

PERU | POLITICS & ECONOMY

Tuesta's departure reveals government vulnerability

Peru's President Martin Vizcarra accepted the resignation of his economy and finance minister David Tuesta on 4 June. The move came after Tuesta had raised excise tax rates on a range of products deemed harmful to public health and the environment, including used cars, cigarettes, soft and alcoholic drinks, and diesel fuel. The increased tax rates sparked protests in

Picking the new finance minister

On 6 June President Vizcarra said he had still not chosen a successor for David Tuesta at the ministry of economy and finance (MEF) as he wanted to take the time necessary to make a considered choice. He had earlier said he was looking at three candidates, of which he named only one, former agriculture minister (and current MEF adviser) José Arista. There was media speculation that one of the other candidates might be economist Carlos Oliva, a former central bank governor.

some of Peru's main regions. Saying his government was "on the side of the people", Vizcarra replaced his minister and promised that the administration would henceforth seek to base economic growth on improved tax collection, rather than higher tax rates. But the sudden replacement of such a key minister (Tuesta had been in office for only two months) may give a variety of pressure groups the impression that the new government is weak and easily turned.

As part of an overall plan to raise government revenues and control the fiscal deficit, Tuesta had decreed a range of increases in the excise tax known as the Impuesto Selectivo al Consumo (ISC). The increase in diesel prices was particularly unpopular and led to a range of protest demonstrations in the southern regions of Arequipa, Puno, Tacna, and Cusco. There was also the threat of a strike by truck and bus drivers, eventually defused by a government promise to (at least partially) reverse the diesel price increase.

Tuesta was isolated as the only minister defending the original decision, insisting that higher ISC rates were essential to raise revenue. The rest of the government notoriously failed to support him. In a speech announcing the change at the ministry, President Vizcarra said the priority now will be to pursue economic growth based on investment and better tax collection, rather than on higher tax rates. Large companies said to owe back taxes equivalent to 1% of GDP will be targeted. Prime Minister César Villanueva said the government would also be reviewing and possibly reducing tax exemptions totalling PEN15.6bn (US\$4.77bn).

Many analysts criticised Vizcarra for showing political weakness and for performing an abrupt policy U-turn. In reality the government as a whole had increased the ISC, but Tuesta appears to have been singled out as a scapegoat for the collective decision. Former finance minister Alonso Segura (who served under President Ollanta Humala [2011-2016]) commented, "Let's hope the departure isn't a response to new policy reversals due to pressure. There are decisions that aren't popular but are necessary."

While Vizcarra has insisted that there has been no U-turn and the government will continue to pursue market and investment-friendly policies, leading members of the private sector are not entirely convinced. "These ministerial changes do not favour either governability or the investment climate," Roque Benavides, the president of the private sector lobby group Confiep, said. Tuesta is the second cabinet minister to be replaced during Vizcarra's first two months in office – there was an earlier change at the ministry of production.

Benavides added pointedly that Vizcarra should be "better informed and take better decisions". An earlier decision by the Vizcarra administration to cancel offshore exploration agreements with Tullow Oil, citing environmental concerns, has disturbed investors who see it as a failure to honour contractual agreements [[WR-18-21](#)].

César Peñaranda, the executive director of the Lima Chamber of Commerce, also questions whether big company tax backlogs and exemptions are really as much of a low hanging fruit as officials suggest. Some are subject to ongoing legal challenge, a matter he says the government should best stay out of and leave to the courts. He estimates that at least half the backlog is made up of "fines, interest charges, and overdue amounts which taken together are unpayable". The government therefore needs to come up with a more realistic target, he argues, for what it can recover.

Politically, the incident shows the government to be vulnerable. Local analyst Fernando Rospigliosi said the decision to replace Tuesta sent out "a terrible signal" and revealed a chaotic situation within the administration,

Justice

Human Rights Watch Americas Director José Miguel Vivanco said the peace accord with the Farc did not do enough to guarantee justice to victims of serious atrocities committed during the armed conflict. “The court has a chance to lay the groundwork for meaningful accountability both for senior army officers and Farc guerrillas who committed war crimes,” Vivanco added.

which had failed to either communicate effectively or to coordinate a key policy. He thought it would encourage other pressure groups (including teachers who are planning a strike later this month) to think that the government will back down when faced with strong demands.

It could also encourage the congressional opposition, which has taken a low profile in recent weeks, to begin turning up the pressure on the government. Another analyst, Luis Benavides, said Vizcarra had missed a unique window of opportunity, offered over the last two months by a cooperative legislature, which is now likely to emerge from its torpor “and scrutinise every decision taken by the executive with a magnifying glass”.

COLOMBIA | POLITICS & JUSTICE

Questions about transitional justice

The peace agreement with the former guerrilla group Fuerzas Armadas Revolucionarias de Colombia (Farc) is coming under increasing scrutiny, not least because Iván Duque, the frontrunner in the second round presidential ballot due on 17 June, says that if elected he will review the terms of the deal. Particular attention is being given to the role of the transitional justice system (JEP).

On 5 June the US based NGO Human Rights Watch (HRW) submitted an ‘amicus curiae’ (friend of the court) brief to Colombia’s constitutional court arguing that it should address “significant flaws” in the justice component of the peace accords. The court is reviewing a November 2017 bill that outlines how the JEP is supposed to work. HRW says there are shortcomings in the bill that would allow war criminals to escape meaningful punishment. In particular, it questions the definition of “command responsibility” in the bill. It also criticises provisions that would bar human rights defenders from serving as judges in the JEP.

The JEP is facing scrutiny from various (and sometimes ideologically opposed) quarters. The transitional courts have been criticised for allowing some demobilised Farc guerrillas to leave the country. One of the beneficiaries of this ruling is Fernando Arellán, a former guerrilla sentenced in absentia to 40 years in prison for his involvement in a 2003 bomb attack on the ‘El Nogal’ social club, which left a toll of 36 dead and 200 wounded.

As a demobilised ex-combatant Arellán has not immediately been called upon to serve his sentence but instead comes under the JEP’s jurisdiction. The justice ministry said that while it respected the JEP’s independence it could not support the decision to let Arellán travel abroad, which “delegitimised” the transitional justice system. Matters are complicated because the JEP authorities say the decision to allow Arellán and five other former guerrillas to leave the country was improperly taken by Néstor Raúl Correa, its former executive secretary (it should have been taken by the JEP Court of Amnesty and Pardon). Duque’s right-wing Centro Democrático (CD) party is asking for Correa to be prosecuted for abuse of authority.

Duque has made clear that if he is elected he will seek a reform of the JEP system that he currently describes as “a monument to the impunity of the Farc”. Commenting on the Arellán case he said “it is shameful that we are beginning to see these elements of impunity. I hope the country as a whole will react against this.” The latest polls show an increased probability that Duque will win the second round run-off ballot: according to pollster Yanhaas, in early June he had 52% support against 34% for Petro. The winner of the second round will take office on 7 August, at the start of a four-year term. Therefore, the stage is beginning to be set for a political debate later this year on whether and how to toughen the transitional justice provisions of the peace agreements.

Strike ends but political upheaval continues

“Thank God the strike has ended,” President Michel Temer declared. Lorry drivers finally returned to work following an 11-day strike, which Temer puts down to the fruits of “dialogue”. But the deal he eventually brokered with drivers may not be the one Brazilians signed up for.

Lorry drivers were campaigning for lower fuel prices, forcing the federal government to step in and reduce diesel prices by R\$0.46 (US\$0.12) per litre. Although 87% of Brazilians supported the strikes, 95% did not want to pick up the tab at the end of it, according to a poll by Datafolha.

The government made a “big sacrifice” to end the strikes, Brazil’s chief-of-staff Eliseu Padilha said. What he did not mention was that subsidising diesel will cost R\$9.6bn (US\$2.5bn), forcing the federal government to make unpopular budgetary adjustments, including cuts to social spending. The education budget will be cut by R\$205m this year while the health department loses R\$180m, as outlined on the official government site *Diário Oficial da União*.

Dipping into funds earmarked for social initiatives to pay for the fuel reductions “shows the President ignored the lessons from the crisis,” Bernardo Mello, a columnist for news site *GI*, argued. More than being about fuel, the protests were driven by a growing dissatisfaction with the government. A minority of demonstrators even called for a military intervention to overthrow Temer.

Of course, there was an element of opportunism in all of this. That explains why lorry drivers refused to step down even after settling with the government. Others claim the protests were sponsored by Temer’s political opponents and designed to expose his weakness ahead of October’s general election. With this in mind, the ringleaders of the protests should bear “some responsibility” for the country’s current predicament, argued Brazil’s minister for institutional security, Sergio Etchegoyen.

Presidential candidates with a penchant for populism profited most from the unrest. Ultra-right deputy Jair Bolsonaro from the Partido Social Liberal (PSL) backed the drivers and railed against the “extortionist” fuel taxes levied by the government. Meanwhile, Ciro Gomes launched a virulent attack on the market-friendly policies pursued by the Temer government and defended his own pledge to keep fuel prices low if elected, saying “my boss is the Brazilian people”. Those who defend the privatisation of the state-run energy company Petrobras and spoke out against the recent strikes could see their popularity fall even further. Those who may lose out include centre-right candidates Gerardo Alckmin from the Partido Social da Democracia Brasileira (PSDB) and Henrique Meirelles from the ruling Movimento Democrático Brasileiro (MDB).

However, perhaps the biggest casualty from the unrest was Pedro Parente. He was forced to resign as CEO of Petrobras after his policy to put fuel prices in line with international markets came under fire. In a letter addressed to Temer, Parente explained that he only accepted the job to turn around Petrobras in exchange for being granted a degree of autonomy to manage the company as he saw fit. Following the change in policy on subsidies, Parente said he felt like more of an “obstacle” than part of the solution. His position will be filled by a former chief financial officer at Petrobras, Ivan Monteiro. But the company’s future direction remains uncertain, with some investors fearing a return to political meddling.

Parente to lead BRF?

Shares in meatpacking company BRF rose 9.85%, reflecting market expectations that Pedro Parente would become CEO of the company within six months after he resigned from his position at Petrobras. Parente is already a member of the managerial committee helping the company to recover from a fraud scandal involving tainted meat.

Brazil tightens data protection laws

In the wake of the Facebook scandal, users are becoming increasingly wary about how their personal data is being used – and abused – online. To address this, Brazil's federal chamber of deputies has passed a new data protection law which could have big implications for companies and the government.

The new law was approved unanimously on 29 May and now passes to the senate. It stipulates that users must give their express permission to governments or companies before their data is used. Any data breaches must also be reported.

The pressure for tighter data protection laws comes after Facebook leaked data from 87m users worldwide, including 443,000 users from Brazil, to political consultancy Cambridge Analytica. This led to stepped up calls for reform to bring Brazil's legislation up to speed with technology.

The new bill was inspired by the European Union (EU) General Data Protection Regulation (GDPR), which recently came into force on 25 May. This stipulates that data can only be passed on to jurisdictions where there is an adequate level of data protection.

Currently, Brazil fails to meet the EU's rigid privacy requirements. But the new law could improve the country's protections, paving the way for greater investment from European companies, argued the bill's sponsor, Orlando Silva. Currently, the only Latin American country that meets the EU's privacy standards is Argentina.

Despite sharing many similarities with the GDPR, the Brazilian version of the bill is less strict. For example, the fine for non-compliance in Brazil would be 4% of a company's annual turnover and is capped at R\$50m (US\$13m). EU countries, by contrast, could fine companies up to 20% of their profits. These are not empty threats and the EU has already threatened to levy €7bn (US\$8.1bn) in penalties against Google, Facebook, WhatsApp, and Instagram for failing to update their privacy policies.

Following the EU's lead, Silva is determined that data protection would also be strictly enforced in Brazil. He plans to set up a new body to oversee implementation of the new law called the national authority for the protection of data (ANPD), linked to the ministry of justice. If the law is approved, companies would have 18 months to improve their protections – or be penalised.

The vote on data protection in the chamber of deputies breaks an impasse in congress. Given the weakness of the current government, the recent protests and the onset of the elections, legislative activity had all but ground to a halt recently for everything except fuel taxes. Other government-sponsored reforms, such as the privatisation of utilities company Eletrobras, have been left in the lurch. But the need for privacy appears to be one cause that everyone can rally behind.

Government under pressure

Like companies, international governments are under pressure to become more transparent about the way they use citizens' data. Last week, the public ministry for the Federal District began investigating the Brazilian government for allegedly selling on citizens' data (*see sidebar*) without their consent. The data is collected on a platform known as the Serpro. From there, it may be sold on not just to other companies but to other public agencies, an investigative report by local daily *Folha de São Paulo* found.

Privacy under threat

The personal data allegedly being sold on to companies by the federal government includes confidential information such as a citizen's full name, national identity number, maiden name, electoral register, address, and financial situation. It has not yet responded to a questionnaire from judges about whether they received money in exchange for passing on this data.

Government taken to task over economy

The government led by President Mauricio Macri has come under pressure from all sides as it continues to struggle to convince Argentines, financial markets, and the international community that its economic policies are sound and can fix the country's current economic problems. The government's inability to reduce inflation, its insistence on maintaining its plans to increase utility tariffs to help reduce the fiscal deficit, and its controversial decision to seek financial assistance from the International Monetary Fund (IMF) has produced significant political tensions and is once again leading to widespread public discontent. In this scenario, the Macri administration will need to rely on its ability to cut political deals to ensure governability.

Following the painful political defeat suffered by the government last week when the opposition-controlled federal congress approved a bill that aimed to roll back the utility tariff increases it has implemented and limit any future increases [WR-18-21], President Macri responded defiantly and vetoed the bill. Macri delivered a televised address on 31 May in which he explained the reasons for his veto. Macri said that, while painful, the tariff increases are necessary to balance the domestic economy and the government's books by reducing the onerous energy sector subsidies (*see sidebar*).

Macri went on to call on the political opposition in the federal congress to take this into consideration and to accept his veto rather than attempt to overturn it. He also appealed for understanding from all those civil society groups and trade unions that have been demonstrating against the tariff increases, and the high cost of living, and urged them to be patient and to have faith that his government's policies will eventually lead to lower inflation and sustainable economic growth.

Macri once again defended the decision to turn to the IMF insisting that this was a contingency measure that would ensure that his government has access to sufficient funds to avoid a financial crisis. He was adamant that any deal his government reaches with the IMF will not lead to the imposition of painful conditions.

However, Macri's message fell on deaf ears. The opposition, led by the Partido Justicialista (PJ, Peronists), the largest party in congress, criticised the veto as "anti-democratic". They accuse Macri of favouring the interest of energy firms over the Argentine people and threatened to overturn the veto (which would require two-third majorities in both chambers of congress). This was supported by those civil-society groups that had been protesting against the tariff increases and they staged mass demonstrations outside the federal congress on 1 July demanding the repeal of the veto.

Meanwhile, the unions, led by the Confederación General del Trabajo (CGT) umbrella union movement, began demanding the opening of a new collective salary negotiation for this year, arguing that the inflation rate remains above the 15% government forecast on which the last such negotiations were based. The CGT threatened to stage a general strike this month if the government refused to heed its demand.

The threat of a general strike that would further undermine economic activity prompted an immediate reaction from the government. After the three CGT leaders announced that they would be holding a meeting on 7 June to analyse calling a general strike, the government invited them to hold an emergency

Utility tariff increases

President Macri said that if his veto is overturned and utility tariff increases are capped it would cost the government Ar\$115bn (US\$4.6bn) and that as a result it would have to cut spending on social programmes, among other things.

Public spending

The Argentine government has announced a plan to reduce public spending on administrative costs by Ar\$20bn (US\$800m) a year. It also announced that there will be a hire freeze on public sector employees for two years. The treasury minister, Nicolás Dujovne, added that spending on overtime, travel expenses, and foreign trips would be cut by 30%.

meeting with Treasury Minister Nicolás Dujovne and the deputy cabinet chief, Mario Quintana, that same day to discuss their grievances.

The government's hope is that Dujovne, who is also leading the negotiations with the IMF and who has announced that all economic policy decisions (including government spending cuts for this year) will now depend on the outcome of these negotiations, will be able to dispel the general strike threat. Should Dujovne fail, the next few weeks could prove to be testing for the Macri administration.

TRACKING TRENDS

ARGENTINA | Stagnating growth. Argentina's official economic growth figures for the first quarter of 2018 have yet to be released but the expectation is that GDP growth will remain subdued this year as a result of the myriad economic problems faced by the country.

According to the May economists' survey by the central bank (BCRA), the consensus growth projection for the year has been cut from 2.5% to 1.3% on the back of projected subdued growth in the first quarter and expectations that growth will be negative in the second and third quarters.

This view is shared by the World Bank (WB). In its latest growth forecasts, released on 6 June, the WB cut its forecast for Argentina for the year from 3% to 1.7%.

ARGENTINA | Gas production surges. Argentina registered the largest increase in natural gas production in the month of April since 2009, the government announced on 4 June. The energy ministry reported that natural gas production had increased by 4.8% year-on-year, while production of unconventional gas had jumped by 29.6% year-on-year.

The energy ministry said that the increase in gas production would mean that imports of liquefied natural gas (LNG) could be reduced, which should help in the government's efforts to limit the strain on consumers in its systematic increase in energy tariffs.

BRAZIL | Eletropaulo takeover confirmed. Italian company Enel has obtained 73% of the shares of Eletropaulo for R\$5.55bn (US\$1.48bn), winning a bidding war with Neoenergía, controlled by Spain's Iberdrola. The deal was finalised on 4 June after Enel paid R\$45.22 (US\$12.07) per share, beating Neoenergía's offer of R\$39.53 (US\$10.55).

By securing the majority share, Enel becomes Brazil's leading energy provider, knocking CPFL Energia (owned by China's state grid) off the top spot. Enel has added another 7m customers to its client list, bringing its total number of clients in Brazil to 17m.

BRAZIL | Exports drop in May following industrial action. Economists are still trying to gauge the full economic impact of the recent lorry drivers' strikes. The industry & foreign trade ministry (MDIC) found exports fell by 36% in May as a result of the strike. They fell from US\$1.06bn in the first three weeks of May to US\$698m in the last two weeks when the strikes took place.

But Brazil still registered a trade surplus of US\$5.9bn during the month of May. Overall the effect of the lorry drivers' strike should be a temporary blip, and the country expects to post a US\$50bn surplus this year, according to the MDIC.

Manufacturers were some of the worst hit by the recent unrest. In May, there was a reduction of 46% of manufactured goods in the last two weeks when the strikes took place, compared to the previous three weeks. A representative from MDIC said this happened because manufacturers are heavily dependent on Brazil's road network, whereas others turn to alternative methods of transport as a fallback. For example, sellers of soy and meat products are more dependent on shipping and have emergency stocks ready and waiting at the ports.

No impact on Nafta?

Mexico's economy minister, Ildefonso Guajardo, said that he does not believe that either the US decision to extend its steel and aluminium tariffs to Mexico and Canada, or the retaliatory measures announced by Mexico will affect the ongoing renegotiation of the terms of Nafta. Speaking on 31 May, Guajardo said that despite this Mexico remains committed to advancing the Nafta talks because "for us they are separate issues". But this view is not shared by Moisés Kalach, the representative of Mexico's business coordination council (CCE) who is advising the Mexican government in the Nafta renegotiation. Kalach said that the imposition of import tariffs and "tit for tat" measures only "complicates" the renegotiation process.

First shots fired in trade war with US

To all intents and purposes, a trade war broke out between Mexico and the US last week. Following the decision by the US to extend its recently introduced import tariffs on steel and aluminium to Mexico, Canada, and the European Union (EU), the Mexican government adopted retaliatory measures, insisting that its actions are a proportionate response. The concern is that there could be further repercussions, scuppering the ongoing efforts to renegotiate the North American Free Trade Agreement (Nafta).

US President Donald Trump announced back in March that his government would impose a 25% tariff on steel and a 10% tariff on aluminium imports in response to the dumping of cheap steel and aluminium on the global market by China. Trump justified the decision by arguing that the saturation of the global market by Chinese steel and aluminium was harming US producers and undermining US national security. Trump's decree invoked the 1962 US Trade Expansion Act, which allows the president to limit the import of any products in the interest of national security – the argument being that oversupply of the metals is driving US producers out of business and affecting the country's ability to supply these key products for the domestic defence industry.

The move by the US prompted complaints by various countries that it was unjustified and ran counter to World Trade Organization (WTO) rules. Mexico, Canada, and the EU noted that the Trump administration had identified China as the main target of the measure and yet by imposing general tariffs it was harming close US allies. They asked to be exempted from the tariffs. The US said that it would consider these requests and suspended the imposition of tariffs on imports from these countries until 1 June when it would make a decision. A day earlier US Secretary of Commerce Wilbur Ross announced that the tariffs would be imposed after all with immediate effect. In the case of Mexico and Canada, Ross said that the decision partly answered to the slow progress of the renegotiation of Nafta, which has stalled over their refusal to accept some US demands. Ross said he was unconcerned if it led to a trade war with his country's Nafta partners as the US currently runs trade deficits with them.

The office of Mexico's President Enrique Peña Nieto's issued a statement lamenting the move and promising retaliatory measures. Mexico's economy ministry (SE) then announced that it would impose import tariffs on US products equivalent to the economic damage that the US tariffs will have on Mexican steel and aluminium exports (an estimated US\$4bn). On 5 June the SE released a detailed list of 50 US products that will be subject to import tariffs of 15%-25%. These range from bourbon whiskey, cheese, apples, and pork meat to steel plates and laminated tubes. The SE statement said that some of the tariffs would be applied immediately and others from 5 July but all would remain in place until the US import tariffs were removed.

The SE statement was adamant that Mexico had the right to adopt retaliatory measures under Nafta rules and international law. It added that Mexico would also pursue the matter at the WTO. Economy Minister Ildefonso Guajardo said he did not expect the US to take any further action against Mexico. However, the list of US products hit by Mexican import tariffs has been carefully drawn up to target US states where there is majority support for the Republican Party in a bid to inflict maximum political damage on the Trump administration ahead of November's US midterm elections.

López Obrador's lead

The latest poll, released on 4 June by economic daily *El Financiero*, gives Andrés Manuel López Obrador 50% of voting intentions, four percentage points higher than in May. Ricardo Anaya, the candidate of the Right-Left Por México al Frente opposition coalition, is on 24%, down two points on the previous month; José Antonio Meade, the candidate of the ruling Partido Revolucionario Institucional, is on 22%, up two points; and independent candidate, Jaime 'El Bronco' Rodríguez, is on 4%, down one point. Anaya's electoral campaign coordinator, Jorge Castañeda, recently conceded that beating the Morena candidate now looks "difficult" but insisted that "it is possible".

López Obrador tries to mend fences with private sector

After weeks of public confrontations with local business lobbies and with less than a month left before the 1 July general election, Andrés Manuel López Obrador, the favourite to win the presidential race, is seeking to clear the air with Mexico's leading businessmen. López Obrador accepted an invitation extended to all presidential candidates by the Consejo Mexicano de Negocios (CMN) and the Consejo Coordinador Empresarial (CCE) business associations to meet their members to analyse proposed economic policies. López Obrador claims that the meeting went well and that he and the business leaders have reached an understanding. If true, this will only strengthen López Obrador's presidential bid.

López Obrador has clashed with some of Mexico's most prominent businessmen over his proposals to scrap the Mexico City new international airport project [[WR-18-15](#)]; repeal the 2013-2014 energy sector reform, which opened up the oil industry to increased private sector participation; and ramp up government spending on social programmes rather than infrastructure development programmes. The criticism from business leaders of these proposals led the candidate of the leftist opposition Movimiento Regeneración Nacional (Morena) to accuse them of being part of the country's 'corrupt mafia' and of working on behalf of the ruling Partido Revolucionario Institucional (PRI) to try to undermine his campaign. Accusations that were strenuously denied by the likes of the CCE and the CMN.

Due to this animosity it was widely expected that López Obrador would decline the business leaders' invitation to meet with them. However, he agreed to hold a private working breakfast with CMN and CCE members in Mexico City on 5 June. After the three-hour affair, López Obrador said that the meeting had been "a good one" and that there had been "no confrontation" between him and the business leaders.

In fact, López Obrador said that he had had a frank and open discussion with his hosts and that they had all agreed to develop "a relationship of cooperation" should he win election. "We agreed that the most important thing is to have cooperation between the private and public sector... we want to reach an agreement to develop and create jobs that improve the economic and social situation of our country," López Obrador said.

For their part, the business leaders said that after meeting all of the presidential candidates, they were prepared to work with "whoever wins the election for the benefit of the country and Mexicans". The CMN issued a statement saying that it had presented López Obrador and his three presidential rivals with its long-term economic agenda called 'Vision 2030', which identifies six axes of action in which the government should focus to help make Mexico more prosperous and inclusive: public security; justice & legality; prosperity & innovation; equal opportunities; efficient and transparent governance; and promoting sustainability to help preserve Mexico's natural resources.

The seemingly positive meeting between López Obrador and Mexico's business leaders is a boon for the Morena candidate. It suggests that he is increasingly seen as a viable president by the business community and not as a definite threat to Mexico's economy and economic development. It also makes López Obrador look conciliatory and statesmanlike. All of this should help him to consolidate his clear lead in the voting intention polls (see *sidebar*) and move him closer to victory next month.

Sánchez Cerén puts brave face on FMLN struggles**Extrajudicial killings**

There was deafening silence in the legislative assembly, even among FMLN deputies, when President Sánchez Cerén praised “the brave work with full respect for human rights” of the national police and armed forces combating the country’s mara street gangs. National and international human rights organisations have raised serious questions about their respect for human rights. El Salvador’s Office for the Defence of Human Rights (PDDH) said it had received 82 accusations of extrajudicial killings by the security forces since 2015. During her 12-day visit to El Salvador earlier this year, the UN special rapporteur on extrajudicial, summary or arbitrary executions, Agnes Callamard, said that she had received “various allegations of the existence of ‘death squads’ within the Police, some of which have been confirmed”.

President Salvador Sánchez Cerén delivered his fourth and final state-of-the-nation address on 1 June to the legislative assembly. He defended his administration’s achievements, but he looked out upon fewer friendly faces than at any other stage of his term in office given the pummelling suffered by the ruling left-wing Frente Farabundo Martí para la Liberación Nacional (FMLN) in legislative (and municipal) elections in March. This defeat was responsible for the FMLN voting for a presidential candidate in primary elections on 27 May who was not even in the frame two months ago. It also prompted the government to launch ‘Plan 10’ for the 10 months leading up to presidential elections in February 2019 to deliver on socio-economic goals it has not met. But there was little evidence of self-criticism in Sánchez Cerén’s annual address.

President Sánchez Cerén argued that economic growth is outstripping forecasts, social justice is improving, with poverty rates falling, and the security forces are combating the mara street gangs within the confines of the law (*see sidebar*). Sánchez Cerén said his government was meeting the objectives and goals of the five-year development plan ‘El Salvador: Productive, Educated, and Secure’.

A document released just 72 hours earlier by Vice President Óscar Ortiz painted a rather different picture. Appointed as a super minister in the wake of March’s electoral debacle, and in charge of rolling out ‘Plan 10’ in the hope of making the FMLN electable, Ortiz wrote in the introduction to the report that “the results obtained to date prevent us from affirming that we have fully delivered in terms of turning ourselves into a productive, educated, and secure country”.

Ortiz led a reformist drive within the FMLN in 2003 when he was nearly expelled for challenging the dominance of the party orthodoxy. Ortiz is fully rehabilitated and reconciled with this veteran guerrilla leadership now but he is still at the forefront of internal efforts to move with the times. It was noteworthy that when the foreign minister, Hugo Martínez, announced his intention to seek the FMLN presidential candidacy on 18 April, Ortiz accompanied him on the stage. “We must apologise for our mistakes, correct them, and move forward,” said Martínez, one of the most visible faces of the reformist wing of the FMLN along with Ortiz.

Before the FMLN’s electoral humiliation in March, Martínez stood no chance of winning party primary elections on 27 May. Gerson Martínez, a former public works minister (2009-2017), had been handpicked by the FMLN party hierarchy, meaning no other candidates were able to oppose him. But in the wake of the FMLN’s heaviest electoral defeat, the party leadership suddenly dropped its unequivocal support for Gerson Martínez and embraced the need for a competitive primary election. Medardo González, the party’s secretary general, stressed the need for “freedom of choice for the grassroots”. Hugo duly won some 20,000 votes to 7,500 for Gerson in the primary elections and was proclaimed the victor in the FMLN’s headquarters in San Salvador.

González said the elections were a celebration of the FMLN’s unity and openness. “The people sent a message that they want more democratic parties,” Hugo Martínez said. It will take much more than this, however, to revive the FMLN’s fortunes. President Sánchez Cerén had a disapproval rating of 68% in the most recent opinion poll by the Instituto Universitario de Opinión

OECD backing

The secretary general of the Organisation for Economic Co-operation and Development (OECD), Ángel Gurría, praised the Costa Rican government's measures on 4 June. In a statement published on the OECD website, Gurría said the "brave and prompt actions go in the right direction", balancing fiscal consolidation between cutting spending and increasing tax income, with new fiscal regulations. He said approval of these measures by legislators was "fundamental to preserve Costa Rica's development model". Years of running fiscal deficits have seen public debt in Costa Rica spiral from 24% of GDP in 2008 to nearly 50% in 2017. "If it is not contained, the rapid deterioration in public finance will put at risk the sustainability of debt, reduce private investment and threaten Costa Rica's financial stability," Gurría said.

Pública (Iudop) of the Universidad Centroamericana (UCA) published on 22 May. It also showed that Nayib Bukele, the former mayor of San Salvador who was expelled from the FMLN last October after an acrimonious falling out, leads voter preferences ahead of the first round of presidential elections on 3 February with 38.5%, followed by the main right-wing opposition Alianza Republicana Nacionalista (Arena), for which Juan Carlos Calleja, a businessman, is standing, on 30%, and the FMLN a distant third on 8.9%.

If this poll is borne out the FMLN faces the ignominy of failing to make a second round on 10 March. There is a reasonable chance, however, that the supreme electoral tribunal (TSE) will not allow Bukele to stand. The president of the TSE, Julio Olivo, told the media on 4 June that Nuevas Ideas needed to be given a copy of the electoral code and law of political parties, prompting Bukele to rage that anywhere else in the world he would be forced to resign for lacking impartiality. Nuevas Ideas presented 200,000 signatures of support to the TSE on 8 May to seek registration.

If Bukele were barred from standing it would improve Martínez's chances. But in this scenario Arena's Calleja would become the firm favourite, not least because Bukele would be likely to call for a boycott vote (as he did in March), damaging the FMLN.

COSTA RICA | POLITICS & ECONOMY

Alvarado goes straight for fiscal deficit

President Carlos Alvarado has hit the ground running in an attempt to resolve the most pressing challenge in Costa Rican politics since the turn of the millennium which has eluded four successive governments: the ever-widening fiscal deficit. Alvarado has signed four decrees, five directives, and sent two bills to the legislative assembly. All these measures are designed to rein in public spending and boost taxes in an endeavour to get public finances back on to a sound footing.

President Alvarado's predecessor, Luis Guillermo Solís (2014-2018), postponed any discussion of the contentious issue of the fiscal deficit until the second half of his term in office by which time he had lost much of his political capital. Determined not to make the same mistake, Alvarado waited just three weeks.

The finance minister, Rocío Aguilar, outlined the government's fiscal sustainability programme to the legislative assembly last week. She sought to persuade deputies to approve a tax reform which would replace the current 13% sales tax with value-added tax (VAT) at the same rate but including more products and, crucially, services. This has been stubbornly resisted in the past by opposition parties demanding that the government concentrate on reducing public spending. And so Aguilar presented a package which she described as "the most important collection of spending cuts since the 1980s".

Aguilar proposed, inter alia, freezing the budget (excluding debt servicing and pensions), public hiring, and salaries for senior public officials in 2019, slashing government expenditure on publicity and travel expenses by 30% apiece, and on official events and ceremonies by 50%. On 1 June, Alvarado signed four decrees related to these measures, halting wage increases and paying annuities to civil servants as a fixed amount rather than as a percentage of salaries. The government will also implement a new public sector salary scheme outlining pay grades and bonuses.

The government hopes that the various measures will shave 1.6-1.7 percentage points off the fiscal deficit, which reached 6.2% in 2017 and is projected to hit 7.1% this year. Aguilar, however, stressed that this was "not a solution but the first phase of a national strategy".

Varela names Panama's FTA negotiator with China

On 24 May, Panama's President Juan Carlos Varela appointed Alberto Alemán Arias as Panama's chief negotiator for talks about a free trade agreement (FTA) with China. A presidential press release notes that Alemán, currently the director of the trade & industry ministry's investment and export promotion agency (Proinvex), will be in charge of coordinating Panama's actions and strategies in the trade talks with all public entities and the private sector. The announcement comes nearly a year after Panama announced that it was switching diplomatic ties from Taiwan to mainland China.

Moïse shores up Taiwan ties

Haiti's President Jovenel Moïse has paid his first official visit to Taiwan since taking office in February 2017. The visit, which took place from 26 May to 2 June, attracted particular attention coming weeks after neighbouring Dominican Republic announced it was cutting ties with Taiwan in favour of mainland China (the latter reportedly offered US\$3.1bn in investment and loans) [WR-18-17]. Reports of Chinese interest in rebuilding Haiti's capital Port-au-Prince are fuelling speculation that the Moïse government could follow suit.

Accompanied by a 30-member delegation which included the presidents of the senate and lower chamber (Joseph Lambert and Gary Bodeau, respectively) as well as Foreign Minister Antonio Rodrigue, President Moïse signed a joint communique with Taiwan's President Tsai Ing-wen which, according to the Taiwanese government, "will further bilateral cooperation in multiple fields to benefit the people of both countries". According to the same press release, the two agreed to establish "a high-level taskforce that will draft, within 60 days, new terms of collaboration on economic and infrastructure development in Haiti as well as potential ways to attract more Taiwanese investors to the Caribbean country".

Yet the statement omits mention of any aid package, saying only that the leaders would "also like to see meaningful contacts between representatives of the business communities of the two countries". Instead the two leaders announced that Taiwan, which now has just 18 allies in the world after the West African state of Burkina Faso revealed last month that it was breaking ties in favour of mainland China, was granting Haiti a US\$150m low-interest loan to upgrade its rural power grids.

Chinese interest

Moïse's professed commitment to Taiwan comes amid reports that two Chinese companies, Southwest Municipal Engineering Design and Research Institute and the Metallurgical Corporation of China (MCC), a state-owned construction firm, have reportedly been negotiating with Port-au-Prince mayor Youri Chevry over a US\$4.7bn plan to rebuild Port-au-Prince and transform it into a more modern city. According to the *Miami Herald*, a letter sent by Chevry in August 2017 to Southwest adviser Xie Yong Jian, confirmed that the municipal government had accepted the proposal.

Among other things, the proposal includes a reconstructed city centre and roads as well as a major 600MW power station; a water distribution network of nearly 900 km; and a sewerage network which includes wastewater treatment plants.

Sica secretary general in Taiwan

Indicative of continued efforts to shore up ties with Central America (which, bar Costa Rica and Panama continues to favour relations with Taipei over Beijing), President Tsai last month received the secretary-general of the Central American Integration System (Sica), Guatemala's former president Vinicio Cerezo (1986-1991).

In an official press release Tsai said that the two "enjoy long-standing ties, as evidenced by the more than 120 cooperative projects implemented by the two sides since 1992", while listing ongoing initiatives which span agriculture, medical care and talent cultivation.

Since 2000, Taiwan has offered technical and financial cooperation to the sub-region as an extra-regional observer of Sica.

Quotes of the week

“I forgive them. I think that forgiveness is necessary to advance in a superior state of the national spirit...If they commit violent acts again, they will go back to prison, again justice will be applied.”

Venezuela's President Nicolás Maduro on the release of 79 prisoners in jail for 'political violence'.

“There are some sectors demanding results as if we have been in government for two years and not two months.”

Peru's President Martín Vizcarra.

“Time has run out. If we don't act, the interest rates Costa Ricans pay on loans will rise, investment will shrink, job generation will drop and the cost of living will rise.”

Costa Rica's finance minister, Rocío Aguilar, on her government's proposal to reduce the fiscal deficit.

Castro chairs Cuban commission to change constitution

Cuba will soon have a new constitution to reflect “economic and social changes due to the passage of time”, President Miguel Díaz-Canel informed the national assembly in an extraordinary session on 2 June. The assembly promptly approved the creation of a 33-strong commission led by the first secretary of the Partido Comunista de Cuba, former president Raúl Castro, who got to work that very day, chairing the first session to draw up the new constitution.

This will be the third modification of the 1976 constitution, which previously underwent reforms in 1992 and 2002. The commission drafting the new constitution will be like a mini constituent assembly, comprising representatives of student federations, social organisations, agricultural producers, the network of neighbourhood groups Comités de Defensa de la Revolución (CDR), dubbed “the eyes and ears of the Revolution” by Fidel Castro, the Mariel special development zone, Cuba's flagship project to attract foreign investment, and the director of the state mouthpiece *Granma*.

The commission will also include históricos, such as Ramón Machado Ventura, 87, and President Díaz-Canel himself, who will serve as vice president. Díaz-Canel pointedly stressed that while the constitution needed updating to take into account economic and social developments over the last 16 years, possibly conferring constitutional protection on ‘cuentapropistas’ (the self-employed), there was no prospect of political change: “The socialist system is irrevocable; an unmovable pillar adopted by the Cuban people in a sovereign manner”. A limit of two five-year presidential terms, however, is expected to be enshrined in the new constitution.

The draft constitution drawn up by the commission will be sent to local communities, student groups, and the military for popular consultation. Their feedback could lead to further changes being made before it is submitted to the national assembly for approval and finally to a popular referendum.



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