

INTER-AMERICAN DIALOGUE'S LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Board Member, Banco
del Estado de Chile

Joyce Chang
Global Head of
Emerging Markets
Research, JPMorgan
Chase & Co.

W. Bowman Cutter
Partner,
E.M. Warburg
Pincus

Rui da Costa
Managing Director,
Latin America & the
Caribbean,
Hewlett-Packard Co.

Alejandro Delgado
Economist for Latin
America, Africa, the
Middle East & Mexico,
General Motors

Dirk Donath
Managing Director,
Eton Park Capital
Management

Jane Eddy
Managing Director,
Corporate & Govt.
Ratings Group,
Standard & Poor's

Marlene Fernández
Former Bolivian
Congresswoman
and Ambassador

Jason Hafemeister
Vice President,
Allen F. Johnson &
Associates

Peter Hakim
President,
Inter-American
Dialogue

Donna Hrinak
Senior Director of Latin
America Government
Affairs, PepsiCo

Jon Huenemann
Principal,
International
Department,
Miller & Chevalier

James R. Jones
Co-chair,
Manatt Jones
Global Strategies LLC

John Maisto
Director,
US Education Finance
Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chairman,
Global Crossing
Latin America

Andrés Rozental
President,
Rozental & Asociados

Everett Santos
President,
DALEC LLC

Shelly Shetty
Senior Director, Latin
American Sovereign
Ratings, Fitch Inc.

FEATURED Q&A

What Will Bolivia's New Constitution Mean for the Country?

Q On January 25, Bolivian voters approved the country's new constitution. How will the new constitution change life for Bolivia's population? Will the results be accepted by the country's non-indigenous minority? What do the referendum results mean for President Evo Morales and his MAS party with presidential elections now scheduled for this December?

A **Guest Comment: George Gray Molina:** "The referendum results confirm a year-long trend: The MAS consistently wins a more than 60 percent majority at the national level, but loses in four or five departments in the east and south. While the regional opposition continues to focus on the legitimacy of the results, most national opposition leaders are now focused on the December elections. I think two lessons can be gleaned from this referendum. The first is that the regional opposition in Bolivia has consistently failed to transcend local and regional corporate political interests. A renewed opposition is likely to succeed only to the extent that it addresses cross-cutting national themes, including employment, poverty and inequality issues that continue to affect Bolivia's majority population. The second lesson is that the MAS is most effective in advancing its own political agenda when it reaches out to the opposition, as it did, warts and all, with the October 21 agreement. The MAS should avoid the temptation of pushing for a zero-

sum victory against all opposing political forces, because it undermines a broader historical imperative: democratic government needs the tempering voice of a democratic opposition. The new constitution is, in my mind, a hybrid constitution, that combines liberal individual rights with indigenous group rights. The key forward-looking question is whether it can deliver peaceful coexistence and democratic governance to a divided polity. As with every Bolivian constitution, the greatest weakness is not in the letter of the law, but in the

Continued on page 4



Morales Replaces Head of State Oil Company YPFB

Bolivian President Evo Morales (L) on Saturday swore in Carlos Villegas (R) as the head of state oil company YPFB. Villegas' predecessor, Santos Ramirez, had come under a congressional investigation. See story on page 3.

Photo: ABI.

Inside This Issue

FEATURED Q&A: What Will Bolivia's New Constitution Mean for the Country?	1
Colombia's FARC Frees Four Hostages, More Releases Expected	2
Guatemala Accuses Thousands of Human Rights Violations.....	2
Lula Orders 12 Percent Hike in Brazil's Minimum Wage	2
Calderon Eyeing More Steps to Stimulate Mexico's Economy.....	3
The Dialogue Continues: What is Driving Pinera's Lead in Chile's Presidential Race?	3

NEWS BRIEFS

At Least 10 Killed as Floodwaters Ravage Southern Brazil

In Brazil, at least 10 people have been killed and 3,000 have been forced to flee their homes because of flooding after four days of heavy rain, the Associated Press reported Friday. The people who were killed drowned in the city of Pelotas, according to civil defense authorities in the state of Rio Grande del Sul. Late last year, flooding and mudslides in adjacent Santa Catarina state caused more than 100 deaths and left approximately 80,000 people homeless.

Mexican Authorities Find 79 Kidnapped Central Americans

Officials in the Mexican state of Veracruz discovered 79 kidnapped Central American migrants hiding in a house in the city of Coatzacoalcos, reported the Associated Press on Friday. The migrants had apparently been abducted after getting off a cargo train, said Leticia Rosado, a state spokeswoman. Central American migrants traveling illegally through Mexico are often a target for organized gangs, who kidnap them and extort money from relatives.

Nationalization of Santander Unit on the Rocks in Venezuela

The Venezuelan government has put on hold negotiations to nationalize **Banco de Venezuela**, the local unit of Spain's **Grupo Santander**, reported Spanish news agency EFE on Friday citing a local media report. According to Venezuelan paper *El Nacional*, the government notified Central Bank directors that it "maintains its unwillingness to resume negotiations." The nationalization was announced on July 31 of last year, but the two parties have so far been unable to agree on a price.

Political News

Colombia's FARC Frees Four Hostages, More Releases Expected

Colombian guerrillas on Sunday unilaterally released four hostages who had been held since 2007, the Associated Press reported. The handover was delayed for more than two hours due to several flyovers by the Colombian military, according to Enrique Botero, a reporter who was present for the mission. The Revolutionary Armed Forces of Colombia (FARC) released the men in an arrangement mediated by Colombian opposition Senator Piedad Cordoba and aided by the Red Cross and Brazil, which provided two helicopters for the mission, Bloomberg News reported. The soldier, William

The FARC is expected to release two more hostages this week.

Giovanni Dominguez Castro, and three police officers, Walter Jose Lozano Guarnizo, Juan Fernando Galicia Uribe and Alexis Torres Zapata, had been held in the jungles of Colombia's Caqueta province. The FARC is expected to release two more hostages this week. In July, Colombian troops tricked the guerrillas into releasing 15 hostages, including three US contractors and former Colombian presidential candidate Ingrid Betancourt. Sunday's release marked the first time since then that the FARC had unilaterally released captives. In the past year, guerrillas have released six captives. Since Colombian President Alvaro Uribe took office, the number of FARC fighters has been more than halved, from 17,000 in 2002 to about 8,000 today, the government says. Last week, the FARC set off a bomb in a Blockbuster video store in a wealthy neighborhood of Bogota, killing two people and injuring as many as 20.

Guatemala Accuses Thousands of Human Rights Violations

The Guatemalan government on Friday accused thousands of people of human rights violations stemming from the country's 36-year civil war, the Associated Press reported. In all, officials filed 3,350 criminal complaints against people including former soldiers and paramilitary troops in connection with human rights abuses against more than 5,000 civilians. The accusations involve massacres, forced disappearances and rapes that happened during the civil war, which lasted from 1960 to 1996. The filing of the criminal complaints was timed for the 29th anniversary of a police raid in 1980 that resulted in the deaths of 37 people at the Spanish embassy in Guatemala City, said Cesar Davila, who directs the National Compensation Program, which the Guatemalan government has funded with a \$40 million budget to compensate victims' families. Guatemala's military and police stand accused of murdering almost 200,000 Guatemalans during the war, which was one of Latin America's deadliest conflicts during the 20th century. In 1999, a UN truth commission report said 90 percent of the violence was the work of soldiers and paramilitaries. Authorities have investigated only three percent of charges against soldiers, human rights groups have said, adding that few army officials have ever been punished for atrocities.

Economic News

Lula Orders 12 Percent Hike in Brazil's Minimum Wage

Brazilian President Luiz Inacio Lula da Silva on Friday ordered a 12 percent increase in the country's minimum wage, Bloomberg News reported. The wage hike to 465 reais per month (\$US 201) from 415 reais, which requires congressional approval, would take effect this month. "The higher wage will directly and indirectly benefit more than 42 million people," Labor Minister Carlos Lupi told reporters in Rio de Janeiro, adding that his ministry also may propose new incentives



Lula

File Photo: Brazilian Gov't.

for companies to retain workers. He did not specify details of the plan. In December, Brazil lost 655,000 jobs as companies responded to slumping demand by cutting production. Lupi said he expects Brazil, Latin America's biggest economy, to continue

losing jobs until March, when he expects a recovery to begin taking hold. The minimum wage increase will also increase public spending. Approximately 17.2 million Brazilians receive pensions or social benefits which are based on the minimum wage level. The wage hike will result in the social security ministry spending an additional 7.87 billion reais annually, the ministry said.

Calderon Eyeing More Steps to Stimulate Mexico's Economy

Mexican President Felipe Calderon said Saturday that he is considering more measures to stimulate the country's economy, Bloomberg News reported. In an interview with Bloomberg Television from Davos, Switzerland, Calderon said the steps under consideration would not contribute to long-term budget deficits, which could hurt investors' confidence in Mexico, Latin America's second-biggest economy after Brazil. Calderon declined to specify what the stimulus measures might entail, but he said tax cuts would not be included.

Company News

Morales Replaces Head of State Oil Company in Wake of Investigation

Bolivian President Evo Morales on Saturday appointed former Energy Minister Carlos Villegas as head of state oil company YPF, replacing Santos Ramirez, who had come under a corruption investigation, reported state news agency ABL. "It's very unfortunate what is happening in YPF, but the national government will lead the fight against corrup-

tion," Morales said during a news conference at the presidential palace in La Paz.

“It's very unfortunate what's happening in YPF, but the national government will lead the fight against corruption.”

— Evo Morales

Morales swore in Villegas with instructions to improve the company's transparency. Morales replaced Ramirez after

The Dialogue Continues

What is Driving Pinera's Lead in Chile's Presidential Race?

Q Recent polls show center-right businessman Sebastian Pinera with a significant lead over other potential candidates in Chile's presidential race, including the governing Concertacion's likely nominee, former President Eduardo Frei. What factors are driving Pinera's momentum this far ahead of the December 2009 elections? How do you see the race shaping up in the coming months?

A **Guest Comment: Guillermo Holzmann:** "Sebastian Pinera has been able to consolidate his candidacy in the public's opinion, greatly improving his chances for becoming Chile's next president. His closest contender, ex-president and current Senator Eduardo Frei is at least ten points behind him, although it should be noted that ten months still remain before the election. The Concertacion has lost support of among citizens as a result of its weakening after 17 years of government, but it is also due to the failure to meet the expectations it inspired in the population, especially with regard to achieving developed country status by Chile's bicentennial in 2010. However, the concrete cases of the fail-

ure of Transantiago (the urban transit system in the capital) at the beginning of the implementation process (2006), the mobilization of secondary students in 2006 over the quality of education and the corruption cases and administrative errors in different government services have resulted in the fatigue that has glimpsed Pinera as a real alternative, in the context of casting a vote of punishment or disappointment. In this scenario, the presidential campaign has begun early and with it has come a confrontational and exclusionary process, increasing the chances of violence. At the same time, no one can be assured of victory without negotiation. For the Concertacion the negotiation must take place with the Communist Party, while in the case of the Alianza, it is with the 'discolos,' those who have left the Concertacion."

Guillermo Holzmann is Professor of Political Science at the Institute of Public Affairs at the Universidad de Chile.

Editor's note: the above is a continuation of a Q&A published in the January 15, 2009 issue of the Advisor.

the country's upper house of Congress started investigating him in connection with last week's murder of a YPF contractor, Bloomberg News reported. The contractor, Jorge O'Connor D'Arlach was killed Wednesday as he allegedly tried to enter a home in La Paz carrying \$450,000. His company, Catler Uniservice SRL had struck an agreement with YPF in July to construct an \$86 million natural gas processing plant. The home belongs to Ramirez's in-laws, Spanish news agency EFE reported, without identifying sources. During a news conference Friday, Ramirez denied any involvement with the money or the murder.

Featured Q&A*Continued from page 1*

ability to implement any of its provisions—especially for a 40 percent minority that will continue to question its legitimacy. This, unfortunately, was the same problem faced by the last constitution. This underlying tension is likely to resurface in the December elections."

A Guest Comment: Peter DeShazo: "The process of approving the new constitution reflected the deep political fault line dividing Bolivia. As expected, the 'yes' vote in favor of approval triumphed in areas where the MAS is strongest and President Evo Morales most popular—the heavily indigenous western departments—and narrowly won in Chuquisaca. The 'no' vote won handily in the lowland departments of the 'media luna.' In effect, Sunday's vote was another referendum on Morales, which he won by a margin of about 60/40. He has stated that he will use the constitution to 'decolonize' Bolivia—building a new political order in which indigenous peoples and the state exercise considerably greater power. His goal will be to win re-election in December and ensure a large pro-government majority in the new legislature—finally ridding himself of a Senate controlled by the opposition. Beyond that, Morales would look to obtain the strongest pro-government representation possible in the Supreme Court, Constitutional Tribunal, and Supreme Electoral Tribunal. The opposition, meanwhile, continues to wage rear guard action both at the national and regional levels. Considerable enabling legislation is needed to put the new constitution into effect and control over that process will be a political football. A scenario of complex transition from one constitution to another will require much political consensus—a commodity in short supply in Bolivia these days."

A Guest Comment: Ivan Rebolledo: "The new constitution should strongly empower Bolivia's indigenous communities with new rights but at the same time

it continues to divide the country along social lines. It would seem that President Morales mishandled his mandate for social change by polarizing public debate instead of uniting the country around the constitution. The new constitution recognizes 36 indigenous nations, increases the autonomy of Bolivia's new departments, establishes state control over national resources, reserves seats in the Congress and Constitutional Court for smaller

“The new constitution will not make real social change immediately and will provoke conflicts with the departments that rejected it.”

— *Ivan Rebolledo*

indigenous groups and establishes limits on land ownership. The new constitution passed with approximately 61 percent of the overall vote, but the 'no' vote generated victory in four Eastern departments where most of Bolivia's natural gas production and agricultural output is found. It is obvious that the new constitution will not make real social change immediately and will provoke conflicts with the departments that rejected it. The concern is that President Morales might attempt to enforce the spirit of the new constitution by presidential supreme decrees to bypass the legislature. Without a doubt, the 'yes' vote has kick-started President Morales' re-election campaign."

George Gray Molina is a *Global Leaders Fellow at the University of Oxford.*

Peter DeShazo is *Director of the Americas Program at the Center for Strategic & International Studies.*

Ivan Rebolledo is *Managing Partner at TerraNova Strategic Partners LLC and President of the Bolivian-American Chamber of Commerce, Inc.*

Latin America Advisor

is published every business day by the Inter-American Dialogue, Copyright © 2009

Erik Brand,
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta,
Editor
gkuleta@thedialogue.org

Matthew Schewel,
Reporter, Assistant Editor
mschewel@thedialogue.org

Inter-American Dialogue:

Peter Hakim,
President

Michael Shifter,
Vice President, Policy

Joan Caivano,
Director, Special Projects

Dan Erikson,
Senior Associate, US Policy

Paul Isbell
Visiting Senior Fellow

Claudio Loser,
Senior Fellow

Manuel Orozco,
Director, Remittances and Development Program

Tamara Ortega Goodspeed,
Senior Associate, Education

Marifeli Pérez-Stable,
Vice President, Democratic Governance

Jeffrey M. Puryear,
Vice President, Social Policy

Viron Vaky,
Senior Fellow

Subscription Inquiries are welcomed at freetrials@thedialogue.org

Latin America Advisor is published every business day, except for major US holidays, by the Inter-American Dialogue
1211 Connecticut Avenue, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each Advisor and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.