

THE POLITICAL OUTLOOK BECOMES CLEARER

21st. century socialists. Cuba. Venezuela. Bolivia. Ecuador. Nicaragua.



There is a group of countries where important changes have been taking place, mainly in the political sphere, threatening certain basic liberties of citizens.

THE ECONOMIC PERFORMANCE IS MAINTAINED

The rest of the region is following a relatively stable path, of an acceptable economic growth and of relative political calmness.

By Carlos Sabino

Latin American TENDENCIAS intends to offer the reader a balanced perspective concerning our region's reality: as a semester informative, it is not a typical bulletin of conjuncture, - due to the fact that it transcends the anecdotic to dive into the tendencies that go beyond the everyday habitual behavior- but this does not imply that we should take on another extreme, adopt a purely abstract perspective, disconnected of the various occurrences of the region. In addition, this equilibrium refers to the themes and subjects to be highlighted: the idea is to link the economical matters with the political and the social, in such manner as to present information that is not limited to a specific group of countries, but rather cover also incidents that on occasions can be overlooked or remain undetected.



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The Center for Opening and Development of Latin America (CADAL), with its main office in Buenos Aires and an office in Montevideo, is a non-profit, non-partisan NGO, created in Argentina on February 26, 2003. It's founding members and officers who share a Liberal-Democratic vision, have had prior participation in other NGOs as well as in journalistic, Human Rights and academic activities linked with the study of Latin American politics.

The creation of CADAL took into account the several political, institutional and economical crises in Latin America and their regional impact, as well as the perception that there could be future setbacks in terms of civil and economic liberties. In this sense, CADAL emerged to occupy in Latin America a space of simultaneously promoting political democracies and free-markets.

Mission

CADAL's objective consists in promoting, in Latin American countries, the strengthening of democracy, Rule of Law and public policies that favour economical and institutional progress. For such ends, CADAL combines activities of research, diffusion and training/instruction, focused on the general public as well as specific sectors, such as journalists, legislators, public officers, diplomats, politicians, analysts, businessmen in general, students and university professors.

Activities and Areas of Work

In order to succeed in such mission, CADAL realizes publications and events by resident or foreign experts; it provides instruction to undergraduate and graduate students; and it implements a variety of institutional programs. Making a special emphasis on Latin American Politics, CADAL's areas of work are: the international promotion of Human Rights; freedom of the press; democratic governance; and both economical and institutional reforms.

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Events during 1st.Semester 2007 have served to further reinforce trends observed in previous years that show as if two different universes were emerging, two scenarios towards which the Latin American situation appears to be heading. On one hand, a group of countries where important changes have occurred, particularly political, threatening the citizens' basic freedoms while their publicly stated objective is to follow a Socialist path adopting political/economic measures increasing state control. These changes, which we will analyze later on, are causing fairly intense conflicts and events need to be carefully monitored. The countries that comprise the other group are following a fairly stable path with acceptable economic growth and political stability. Naturally, there are countries that do not fit into any of the two groups which we will analyze separately.

1. 21st. Century Socialists Cuba

The first group is comprised of countries with fairly small economies, the only and conspicuous exception being Venezuela that furthermore, is the driving force behind this group. Naturally, among them is Cuba that since the January 1, 1959 nationalist and anti-dictatorial revolution that brought Fidel Castro to power, embarked on a classically totalitarian Socialist path. The entire economy is in hands of the State, there is a single party totalitarian regime that gave Castro absolute power and close ties were knit with the now extinct Soviet Union. Cuba was completely subordinate to it during the Cold War.

Midway through 2006 Fidel Castro had to step down due to health problems that at one moment seemed terminal. But the old dictator recovered, though not completely and the island lives in what can be defined as political

limbo: no important changes will take place while the legendary dictator is alive, all decisions are at a standstill and the political climate has frozen as when a film is put on pause.

The regime has a strong-man characteristic that does not allow any leader to dare propose changes to the current system because he would immediately be ostracized by his peers and since it is a totalitarian state, all manifestations by its citizens are tightly controlled.

There is substantiated hope that once Fidel Castro dies, Cuba could enter a transition stage towards democracy and a less closed economy but the present government, headed by his uncharismatic brother Raul Castro, will attempt to preserve the current situation as long as possible. The example of the Soviet block shows that in totalitarian regimes, it is impossible to control changes once the population loses its fear and starts making increasingly bold claims.

The rigidly closed Cuban economy provides no opportunity for individual initiatives has for a long time demonstrated that it is totally unviable. Ever since the 60s it needed heavy economic aid from USSR to keep it afloat and even then, consumers had to endure constant shortages. When the USSR collapsed, Castro was forced to ease the economic restrictions amid increased hardships for the population.

But, as from 2001, a stroke of luck has allowed him to retake complete control of the State: Hugo Chavez' rise to power in Venezuela was the savior Cuba so desperately needed, replacing the economic aid that at one time USSR provided. We are not exaggerating: well documented research reveals that between US\$ 2 and 3 billion per year flow from Venezuela to Cuba, a figure that is more than half what USSR at one time provided.

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Venezuela

Lieutenant Colonel Hugo Chavez, who headed a failed coup in February 1992, managed to win the 1998 elections thanks to deep discontent of the population who backed an “anti establishment” candidate following two decades of frustrated hopes. After experiencing very strong economic growth during the middle of the last century, Venezuela lapsed into economic stagnation that thwarted any social advancement and caused the product per capita in real terms to be lower than 50 years back, unheard of when compared to the growth experienced by the great majority of the countries in the world.

Chavez applied a simple formula to obtain absolute power: in addition to the wide majority gained when he came to power, resulting from the populations’ unfulfilled expectations, the Venezuelan strong man called for a Constitutional Assembly that he controlled comfortably and gave him practically unrestricted power. With the help of the extremely high world oil prices, Chavez installed a handout system that ensured him mass popular support while he led the country down the path of what he terms “XXI Century Socialism”. By controlling all the powers: legislative, judicial and electoral, last December he was reelected and since then has given added impetus to his transition to Socialism.

Since the beginning of 2007 it is clear what this Socialism entails: his oil money allowed him to purchase two important companies: CANTV 9 (communications) that was privatized in the early ‘90s and Caracas La Electricidad that was always privately owned, now by an American group. He spent US\$2.5 billion on these purchases, showing that it was more important to invest in controlling the economy politically than making it grow solidly and realistically. Other measures already in effect complete the framework of State intervention so familiar to the Venezuelan population (and Latin Americans in general): Government control of foreign exchange, prices and interest rates, (discretionally applied), use of every possible method to harass businessmen and high customs duties that isolate the economy increasingly dependent on oil.

Imitating all other Communist countries, Chavez has also made sure of increasing the armed forces and equipping them to such a level that it concerns all countries in the region. In 2005 and 2006 he has spent the impressive figure of US\$4.3 billion on arms, more than his ally, Iran or Pakistan. It included 24 war planes, 50 helicopters and 100,000 Kalashnikov rifles. While this report was being prepared, Chavez was in Russia negotiating the purchase of a fleet of submarines.

Last May, as he had already announced, Chavez decided to increase his control on society by not renewing the concession for Venezuela’s main TV station, RCTV. With this he completed his direct or indirect control of all open broadcasting, thereby gaining virtual monopoly of all mass market information media. Much to the government’s surprise, the public outcry against the measure was much more vocal than expected.

Not only was there strong international rejection to the measure but students from universities throughout the country poured into the streets to protest the measure, rapidly supported by a broad segment of the population. There were mass marches, one of them with hundreds of thousands of demonstrators using creative forms to voice their protest. Reliable surveys indicate 70% to 80% rejection to the Government’s measure. Naturally, Chavez has not modified his position: his Government will not back down when confronted by pacific protestors nor when faced with survey results because his authoritarian military vocation allows him to continue implementing his policies regardless of what public opinion is indicating. Many analysts believe that Chavez would only change course or resign if confronted by a powerful show of force: he has too much at stake and anyway, his democratic vocation is negligible or non-existent.

Nevertheless, the Venezuelan strong-man’s problems are not over. In addition to student opposition and his drop in the opinion polls, there is now resistance to PSUV, his “Bolivarian Revolution’s” intended single political party and rejection to his planned attempt for a new Constitutional reform from some of his own supporters. Even among those who spout “Chavist” slogans there are

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those who do not want full Socialism and the economic situation may present some surprises in the coming months, despite the continued high price of oil. In Caracas there is inflation and shortages, latent dissatisfaction with the high cost of living and lack of opportunities in a closed economy that is very depended on a single export product. There is lingering social unease that at any moment may explode.

However, the outlook is not too promising: the Government's loss of public support will continue in the coming months but this will not produce any significant changes. The opposition does not have the power to defeat Chavez nor does he, in spite of his threats, at this time have the possibility of installing Cuban type totalitarianism which undoubtedly is what he intends doing.

Bolivia

Evo Morales has followed the Chavez model step by step in order to gain absolute power. After various years of persistently destabilizing the existing system, he managed to gain a clear victory in the elections. From then on he entered the second phase, which is summoning a Constitutional Assembly. However, here he has confronted difficulties that his Venezuelan mentor did not face. Confident of gaining an absolute majority, he agreed that the Assembly approve key resolutions with a two thirds majority but he then did not gain the required votes to control the Assembly so since early 2007, Bolivia has been immersed in constant political conflict.

The opposition has so far been able to block Evo Morales' attempt to change the Constitutional Assembly's rules and made headway with their claims for greater autonomy for the eastern departments, headed by Santa Cruz. There were two deaths in January in Cochabamba as a result of clashes between autonomists and government supporters. The Government continues trying to extend state control of the economy, especially in the energy sector and creating a climate that does not favor private enterprise. But the Constitutional Assembly, a key element in Morales' strategy, is making no headway apart from endless speeches and not providing the political benefits that were expected. Given

lack of results, the Assembly has agreed to continue in session beyond the stipulated date which is proof of the problems confronting Morales is in his effort to emulate Hugo Chavez' despotism.

Ecuador

On January 15 2007 Rafael Correa, an economist with left wing ideas, became President of Ecuador. Without the support of an organized political party and emerging as an anti-establishment candidate given the country's continual state of crisis, Correa does not have parliamentary majority as only 36 of the 100 deputies formed a block to support him. But he understood that, as had been the case with Chavez, he had to move quickly to consolidate and extend his power while he still had broad popular support.

Fifteen days after taking office, 5,000 of his supporters surrounded Congress and violently evicted its members. With the support of ex-President Lucio Gutierrez' Sociedad Patriotica party, Correa finally obtained Congress' approval for a referendum to decide whether a Constitutional Assembly should be called to provide him with full powers. After considerable trouble, on April 16 the referendum was held and 82% of the electorate voted in favor. Constitutional order that was in effect in Ecuador until 2006 has been destroyed and the country is experiencing a major political confrontation. Correa has shown a very aggressive attitude towards the press and opposing Congressmen. Some have had to seek asylum in Colombia. His attacks on the press have caused him to loose part of his popular and party backing though it would appear that the majority still support him. Because of his dictatorial attitude, the democratic leftist faction has abandoned him. Elections for the 130 Constitutional Assemblymen (similar to what Venezuela held in 1999) are set for September 30 2007. It is difficult to predict if Correa will gain an overwhelming majority as did Chavez or if his power consolidation process will run into the same turbulent times as is happening in Bolivia.

What is clear is that the constant instability that has afflicted Ecuador during the last decade continues. The last three elected Presidents were deposed in very unclear

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fashion amid confusing incidents and in a highly conflictive environment that seems to be escalating. The three deposed Presidents were: Abdala Bucaram (1997), Jamil Mahuad (2000) and Lucio Gutierrez, forced out in 2005. Correa could suffer the same consequence or on the other hand, become a Chavez style dictator. The only sure points are that the September elections will be decisive and that the conflictive environment will continue throughout 2007.

Nicaragua

Daniel Ortega, once again President, has not embarked on such an aggressive course as have his Andean counterparts. To govern, he needs the support of the Liberal Constitutionalist Party and so far he has not openly risked breaking with institutionalism though he does proclaim unqualified support for Chavez and ALBA, the economic integration initiative that the Venezuelan President is advocating to counteract the free trade agreements that some countries have signed with United States. Nicaragua is already a member of CAFTA, a trade agreement that links Central American countries and the Dominican Republic. Soon after its implementation, CAFTA was already producing excellent results.

At present it does not seem likely that Ortega can become a Nicaraguan Chavez. Both the broad opposition and the memory of the years Nicaragua suffered under the Sandinista regime, makes Ortega's task very much more complex than that of the Presidents of the other countries mentioned.

3. The rest of the region

The rest of the countries in the region are looking on in horror at the turn towards Socialism taken by the countries we have analyzed, while they live through a very different political and economic situation. There are no confrontations or political crises and their economies, though in most cases still with high Government intervention, are not headed towards Socialism, to the contrary, the trend is towards opening their markets and more flexibility.

Brazil, the region's largest economy, continues on its independent course led by its moderate President, Lula da Silva, who gave Bush a warm welcome when he visited

Brazil in March as part of his trip to Mexico, Guatemala and Colombia. The American Government, its attention fully taken up by Iraq and Afghanistan, seems now to realize that it must pay more heed to its "back yard" before more enemies appear in the region causing another focal point of international tension. Chavez' alliance with Iran, who is about to have nuclear weapons, is the cause of United States' concern

Mexico, whose economy is increasingly linked to its northern neighbour, is also apparently opposed to the temptations of the expanding Chavist axis. The situation is similar for in **Central American**, where the CAFTA integration process is underway. **Costa Rica** last year overcame the threat of an "anti-establishment" candidate and **Guatemala**, with elections in September, seems to be immune from authoritarian populism preached by XXI century Socialists. **Panama** last December signed a FTA (Free Trade Agreement) with United States.

Colombia is still waiting for ratification by US Congress of a similar free trade agreement, where it has met with considerable opposition. President Uribe has released approximately 200 members of FARC arrested for terrorism, hoping to demonstrate this organization's scant will to negotiate. FARC has held 56 hostages for some years, including three Americans and ex-Presidential candidate, Ingrid Betancourt. Until now, FARC, with evident Venezuelan support, has been adamant about not negotiating: it has little popular support and faced by a Government with broad public backing, they realize that they cannot hold out for much longer so toughen their stance in order to gain time in the hope of a more favorable opportunity.

Chile's situation is the most encouraging of the entire region. In spite of some of Socialist President Bachelet's leftist views, Chile for many years has sustained a 5% growth rate and leads the region in per capita income. The country benefits from political stability thanks partly to the cautious fiscal management by the different Governments. Inflation is running at 3% per year, their public accounts are positive and they have created an institutional environment closer to that of a developed country rather than Latin

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America's tumultuous history. Thanks to their FTA with United States, trade with that country has doubled in less than two years and the Organization for Economic Cooperation & Development (OECD), whose members are the most advanced countries in the world, has opened its doors to Chile. Mexico is the only other country in the region to belong to this exclusive club of just over 30 countries in the world. With their free trade agreements and low duties, Chile is probably, worldwide, one of the best integrated countries of this century.

Peru and Uruguay continue with good economic results in a climate of relative social order and **Paraguay** is the only country where political conflict can be expected in the coming months.

Lastly, **Argentina** is the only medium sized country in the region that could tilt towards the axis Chavez has created. President Kirchner has flirted with the Venezuelan strong man and has definitely leftist inclinations, openly proclaiming his past association with the Montonero guerilla movement. Government intervention in economic affairs, prevalent in the 70s and caused so many crises, has returned with a devalued currency, high tariffs and hardly veiled price controls plus controls over other areas of the economy. Nevertheless, recovering from the brutal crises of early 2000, Argentina's economy has grown in the last years thanks to very favorable world prices of the raw materials it exports. With positive economic results, so far Kirchner can count on solid popular support.

Most analysts agree that given these circumstances, his reelection in October is assured or otherwise, that of his wife Cristina who could become the official Presidential candidate. However, victory in the key Buenos Aires City elections by the center right opposition candidate, Mauricio Macri and the defeat of Kirchner backed candidates in two provinces (Misiones and Tierra del Fuego), plus a slow down in the economy with increasing inflation, have blurred Kirchner's prospects.

Nevertheless, it seems unlikely that Argentina will get too close to the XXI century Socialism that is causing such problems in the smaller countries of the region. To the contrary, there are indications of a tilt

towards more center or right political policies.

An overall group evaluation

Ecuador, Bolivia and Nicaragua are small economies whose joint GDPs total US\$26 billion, little more than 1% of Brazil and Mexico's economies combined. Their total population is just over 20 million inhabitants, less than various Brazilian states taken individually.

It is difficult to quantify the completely centralized Cuban economy, but it is safe to say that it is not a flourishing: its actually a total failure that only survives thanks to Chavez' remittances.

Regarding **Venezuela**, though it is a medium economy, it has experienced practically no growth in the last decades and not only has it fallen back in the ranking of economic freedom, it also has retreated in terms of production capacity and the population's income. It is only thanks to the high prices of oil in the last three years that Chavez' Government has been able to survive and indulge in its regional political expansion.

In conclusion, although the appearance of the new Socialists in the region is a call of attention and concern, it must be borne in mind that the region as a whole is advancing along very different paths. Probably not with the potential vigor that it should in light of the favorable world economic situation but very removed from the totalitarian attempts that without a doubt will generate conflictive situations in the next semester.

The XXI century Socialists, without short term possibility of extending into other countries and with economies that could at any moment face important crises, appear to be centers of acute unrest in some areas but not a widespread threat to the region.

THE ECONOMIC PERFORMANCE IS MAINTAINED

Tendencies agree with the IMF Director General, Rodrigo Rato, that the region's economic growth is not as positive as it should be given the current international conditions. It is obvious that with 5 % yearly growth rate and the same forecast for 2007, Latin America is benefiting from the high world prices of raw materials rather than from correct economic policies adopted by

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its governments. Few advances have been made in privatizations and in view of the heavy influx of foreign currency, Government control of fiscal spending have been left aside thereby adding potential fuel to inflation.

In addition, the increased fiscal spending on social policies that only reach the needy population slowly and precariously, is only minimally improving this sector's situation.

In most of Latin America, establishing new companies is plagued with red tape that translates into heavy start up costs; political instability scares off local and foreign investors and high taxes do not allow them to compete in the global market.

In most cases the financial sector is not solid and the freeing up of the economy that takes place through free trade agreements with countries outside the region, is timid and generally slow compared to the rapid expansion rate of world trade. Chile is the only country that has been systematic and effective in achieving this and the results are clearly visible.

Interesting considerations

The region's growth rate was higher in 2006 than 2005. This was true in nearly all the countries when considered individually.

Mexico increased from 2.8% to 4%, Brazil from 2.9% to 3.7% and for the sub-regions in which Latin America is normally divided, the results were also favorable: South America grew from 5.4% to 5.7% in 2006; Central America from 4.3% to 5.7% (this IMF data is provisional)

The region's economies can be divided into three groups according to size, as follows:

- Two giants, Brazil and Mexico, with GDP's of approximately US\$1,000 billion and US\$800 billion respectively. Their Governments are politically moderate and short to medium term swing to the left is not expected.
- Five medium sized economies, with GDP's considerable below the two giants, vary between US\$90 billion and US\$250 billion: **Argentina, Chile, Venezuela, Colombia and Peru**. In this group, Venezuela is the only country with definite Socialist leanings; **Peru, Chile and Colombia** have fairly healthy

economies and Argentina, whose economy is questionable, could be heading short term towards moderate economic trouble.

- Eleven countries with GDP's under US\$40 billion are: **Ecuador, Guatemala, Dominican Republic, Costa Rica, Uruguay, El Salvador, Panama, Bolivia, Honduras, Paraguay and Nicaragua**. Most of these countries are currently experiencing healthy economies except for the three that we mentioned as forming part of the Chavist axis: **Ecuador, Bolivia y Nicaragua**.

As a final and interesting point, the accumulated inflation between 1961 and 2006 (last 45 years) for some countries is truly astonishing:

- **Brazil**, with 14,210,480,006,034,800 %
- **Argentina**, with 256.376,764,519,163 %
- **Perú**, with slightly less: 216.144.603.134 %

Inflation statistics are not available for all countries but we are sure that at least **Bolivia, Chile, Venezuela and Nicaragua** would show equally terrifying numbers.

For decades, our currencies have been like traps created by the Governments to confiscate our earnings, destroy our savings and feed sterile bureaucracies that obstruct development. It has been the main cause as to why the Latin Americans invest their money abroad and why poverty has increased (or, at least, has not diminished). Inflation has compounded our inequalities, depleting the poorer classes' earnings, preventing them from saving and committing them to a life of survival while allowing those who have access to power or to the financial system, incredible opportunities to make fabulous profits. There is an obvious answer: there is no point building more schools or outpatient health care centers, create all types of social programs or increase Government spending if this is done at the expense of devaluating the currency, fueling price increases and forcing more people into poverty every day.

The rest of the countries in the region are looking on in horror at the turn towards Socialism taken by the countries we have analyzed, while they are living through a very different political and economic situation.