

BOARD OF ADVISORS

Diego Arria

Director, Columbus Group

Devry Boughner Vorwerk

Corporate VP, Global Corporate Affairs
Cargill

Joyce Chang

Global Head of Research,
JPMorgan Chase & Co.

Dirk Donath

Senior Partner,
Catterton Aimara

Marlene Fernández

Corporate Vice President for
Government Relations,
Arcos Dorados

Peter Hakim

President Emeritus,
Inter-American Dialogue

Donna Hrinak

President, Boeing Latin America

Jon Huenemann

Vice President, U.S. & Int'l Affairs,
Philip Morris International

James R. Jones

Chairman,
Monarch Global Strategies

Craig A. Kelly

Director, Americas International
Gov't Relations, Exxon Mobil

John Maisto

Director, U.S. Education
Finance Group

Nicolás Mariscal

Chairman,
Grupo Marhnos

Thomas F. McLarty III

Chairman,
McLarty Associates

Carl Meacham

Associate VP for Latin America
Int'l Advocacy Division, PhRMA

Carlos Paz-Soldan

Partner,
DTB Associates, LLP

Beatrice Rangel

Director,
AMLA Consulting LLC

Ernesto Revilla

Head of Latin American
Economics, Citi

Gustavo Roosen

Chairman of the Board,
Envases Venezolanos

Andrés Rozental

President, Rozental &
Asociados and Senior
Policy Advisor, Chatham House

Roberto Sifon-Arevalo

Managing Director, Americas
Sovereign & Public Finance Ratings,
Standard & Poor's

FEATURED Q&A

Would Cuba's New Constitution Bring Major Changes?



Last week, Cuban President Miguel Díaz-Canel marked 100 days in office. // File Photo: Cuban government.

Q Cuba's National Assembly on July 22 approved the draft of a new constitution that would recognize private property, reorganize the government by creating the position of prime minister and also pave the way for possible recognition of same-sex marriage as well as other economic, social and political changes. The constitution is expected to be discussed in public meetings and voted on in a national referendum in a process that could take months. What are the most significant changes in the new draft constitution, and to what extent would it modernize the country? How much would Cuba's communist system change under the proposed constitution? Will the new charter succeed in attracting foreign investment to Cuba?

A Ted Piccone, senior fellow at the Brookings Institution: "The most important observation to make about the proposed draft of a new constitution now circulating on the streets of Cuba is that it remains subordinate to the supreme power of the Cuban Communist Party. While the text introduces the concept of a 'socialist rule of law' and within it, the supremacy of the constitution, the real power will remain with the Communist Party as the highest political entity of the state. In the words of the president of the National Assembly's Legal Affairs Committee, the constitution could not issue guidelines for the party, as the party is society's 'superior force.' What follows from this reality is the conclusion that Cuba's constitutional reform project is designed to reaffirm, rather than to alter, the socialist, state-controlled character of Cuba's politics, economy and society. It also ratifies, at the

Continued on page 3

TODAY'S NEWS

ECONOMIC

Venezuela Moves to Loosen Some FX Controls

Opposition lawmakers have criticized the government's transparency in announcing the measure, saying only a well-connected few will benefit.

Page 2

ECONOMIC

Mexico's Next Labor Minister Promises Change

Mexico's incoming Secretary for Labor and Social Welfare has pledged to integrate 2.6 million currently idle young people into either school or the labor force.

Page 3

POLITICAL

Argentina Makes New Arrests in Corruption Probe

Judge Claudio Bonadio stated that initial estimates for the bribes stand at more than \$50 million, based on notebooks kept by a driver for a senior planning ministry official for nearly a decade, but the corruption network could reach up to \$160 million in payments.

Page 2



Bonadio // File Photo: Government of Argentina.

POLITICAL NEWS

Argentine Police Make New Arrests in Corruption Probe

Argentine authorities raided the homes and businesses of more than a dozen high-level executives and former government officials on Thursday in a massive corruption probe relating to graft in the former administration of Cristina Fernández de Kirchner and her late husband, Néstor Kirchner, *La Nación* reported. At least eight people have been taken into custody, while four remain at large, with one millionaire businessman, Francisco Rubén Valenti, a director of energy company IMPSA, fleeing to the United Arab Emirates just days before the raids. The case stems from the revelation of secret notebooks kept by Oscar Centeno, who was employed as a driver by a public works official, that allegedly describe deliveries of bags of cash as political payments for state contracts. The notebooks cover intermittent years ranging from 2003 to 2015, when the Kirchner family governed the country for more than a decade. Centeno kept his notebooks when he was driver to Roberto Baratta, a high-level employee in the planning ministry. Federal Judge Claudio Bonadio stated that initial estimates for the bribes stand at more than \$50 million, based on the notebooks, but the corruption network could reach up to \$160 million in payments. Centeno, the driver, has been arrested and is cooperating with investigators. Those arrested this week include Carlos Wagner, the head of the Argentine Chamber of Construction, Javier Sánchez Caballero, the former head of construction company Iecsa, and Gerardo Ferreyra and Jorge Guillermo Neira, vice presidents of Electroingeniería. Eight of Centeno's notebooks were passed to *La Nación* earlier this year, and its journalists worked on a story secretly for months before passing them on to judicial authorities, *BBC News* reported. The evidence came to light when Centeno's ex-wife went to the authorities to denounce her spouse, saying that large bags of cash were often moved in and out of their home. Centeno had given the

notebooks to an acquaintance so that they wouldn't be found in his house. However, unbeknownst to him, the unnamed acquaintance had made photocopies of the books, which then ended up in the media's hands, according to *Argentina Reports*.

ECONOMIC NEWS

Venezuela Moves to Loosen Some Currency Controls

Venezuela's government-dominated National Constituent Assembly on Thursday voted to allow certain transactions in currency exchange houses in a move that aims to loosen the country's strict currency exchanges controls as the government grapples with a five-year economic recession and soaring inflation, the *Associated Press* reported. Venezuela's economic contraction is among the deepest in the world over the last six decades, and inflation is set to reach one million percent by the end of the year, according to economists at the International Monetary Fund. Late socialist President Hugo Chávez imposed the strict currency exchange controls 15 years ago. The changes announced Thursday seek to give Venezuelans "the broadest guarantees for their performance in the country's economic participation model," said Vice President for the Economy Tareck El Aissami, state news agency *AVN* reported. But opposition lawmakers have criticized the government's transparency in announcing the measure. Ángel Alvarado, a deputy with the disempowered National Assembly, said the foreign exchange benefits "will be for the well-connected few at a bargain price that can be sold in a free market," the *AP* reported. Relaxing currency exchanges is part of President Nicolás Maduro's recently announced economic recovery plan, which also includes removing five zeros from the bolívar currency in order to provide citizens with a reasonable way to make transactions amid hyperinflation. [Editor's Note: See related [Q&A](#) in Thursday's issue of the *Advisor*.]

NEWS BRIEFS

OAS Creates Nicaragua Working Group

The Organization of American States on Thursday created a working group to find a peaceful solution to Nicaragua's political impasse, *Reuters* reported. Violent protests since April against the administration of President Daniel Ortega have left more than 300 people dead. The OAS resolution aims for "national dialogue" and "collaborative work with different regional and international actors," said the Mexican foreign ministry, which backed the move. Nicaragua's foreign minister criticized the resolution as an "interventionist political maneuver," according to the *Associated Press*.

Colombia Offers to Sell Stake in Telefónica's Coltel

Colombia's government on Thursday offered to sell its 32.5 percent stake in phone service provider Coltel for nearly \$800 million, *Reuters* reported. In a statement, the finance ministry said the shares will be on offer until Oct. 3. Spain's Telefónica bought a 50 percent plus one share stake in Coltel, which operates under the Movistar brand, in 2006 for the equivalent of \$369 million, according to the report. *Fitch Ratings* on Wednesday upgraded Coltel's ratings for the second time within a year.

Argentine Industrial Output Falls Sharply

Argentina's industrial output dropped 8.1 percent in June as compared with the same month last year, state statistics agency *Indec* said on Thursday, *Reuters* reported. "Indicators point to a very sharp loss of real activity momentum," *Goldman Sachs* analyst Alberto Ramos told clients in a research note. "Overall, the economy is very likely to experience a recession ... and real GDP to contract in 2018," he added. Cumulatively, industrial output was up 1 percent in the first six months of the year compared with the same period in 2017.

Mexico's Next Labor Minister Promises More for 'Ninis'

Mexico's incoming Secretary for Labor and Social Welfare has pledged to integrate 2.6 million currently idle young people into the country's universities, private companies and the public sector, El Universal reported Thursday. In an interview with the newspaper, Luisa María Alcalde Luján said youth who neither work nor study, or 'ninis' as economists refer to them, would receive more concentrated attention in the administration of Andrés Manuel López Obrador, which takes office in December. "We are not going to keep ninis, they will be incorporated into the labor market," she told the newspaper. Alcalde also said she plans to rename her agency as the Ministry of Labor and Employment.

BUSINESS NEWS

Brazilian Cane Mills Choose Ethanol Over Sugar Production

Brazilian sugar cane mills will continue to prioritize ethanol production over sugar output well into the next crop season, Reuters reported Thursday, citing interviews with mill operators. High prices for oil have boosted demand for the biofuel despite ethanol stockpiles that have risen to relatively high levels due to an early harvest under currently dry crop conditions in Brazil's center-south. The growing stockpiles have put some pressure on ethanol prices, but today those rates are still providing better returns than sugar. Brazil's ethanol imports in July were higher than a year ago, Agra-net reported Thursday, citing port statistics. Total arrivals amounted to 140 million liters, up from 74 million in the same month a year ago. The entire volume was imported from the United States.

FEATURED Q&A / Continued from page 1

constitutional level, some of the important changes that Raúl Castro introduced during his 10-year term in office, notably the recognition of private property and foreign direct investment as legitimate traits of Cuban socialism, the adoption of term and age limits for key leadership positions, and requirements for Cuban nationals, wherever they reside, to produce Cuban documentation when on the island. The rest is mostly window dressing, although some features introduce concepts that, over time, may open small opportunities for greater internal debate. For example, provisions to create a new position of prime minister who would preside over all government ministries would cement the shift from the charismatic one-man rule of Fidel Castro to a power-sharing arrangement that could institutionalize and professionalize government services under the ideological guidance of the Communist Party; it could also create fissures among rival elites."

A Vicki Huddleston, retired U.S. ambassador and former chief of the U.S. Interests Section in Havana: "The world is moving forward—even Cuba. A Castro doesn't rule the island, and its new constitution allows private property, same-sex marriage, and for the first time since the revolution, removes power from the hands of one person by creating the post of prime minister. The United States' Cuba policy is moving backward, as conservatives gather their strength to ensure the continuation of the embargo while advocating for a still more punitive policy. Their efforts will make reform more difficult in Cuba and penalize the Cuban people. What the United States should be doing is envisioning a Caribbean-Central American cooperative development scheme that puts Cuba front and center. If the United States doesn't help the region reduce poverty, violence and the deterioration of democracy, we will lose our hegemony in the region, and rightly be

condemned for our pitiless policies toward those feeling persecution."

A Peter Hakim, president emeritus of the Inter-American Dialogue: "The draft constitution suggests that Cuba's leadership is preparing to take some steps toward political and economic opening. The document, for instance, would legalize private property, limit the president to two five-year terms and shift some of his power to a prime minister, and endorse gay marriage and other LGBT rights. Yet the revised charter hardly seems like much of a start for those of us hoping that Cuba will evolve toward a democratic society governed by the rule of law—and that the groundwork will finally be laid for a more robust economy that can provide Cubans with a decent standard of living, and begin to offer real opportunities for young people. Instead, the revised constitution appears designed mostly to reinforce governmental authority over its citizens, and keep the economy under tight state control. Under the new charter, Cuba will remain a one-party state, with the opposition outlawed. Ordinary Cubans will remain without a voice in choosing their leaders, framing their laws or shaping their future. And recently approved regulations impose high taxes and stringent restrictions on private enterprises, limiting their size, workforce and profits. Yes, Cubans will have the chance to ratify (or reject) the document in a public referendum—but no one should expect serious opposition, because none will be permitted. The new charter will assuredly be improved by an overwhelming majority who know the risks of dissent. Beginning with the Magna Carta in 1215, the most consequential role of constitutions has been to set forth the basic rights of citizens and limitations on state power. These are both absent from the Cuban document. Still, it may be that, given political and economic conditions in Cuba, small steps coupled with continu-

Continued on page 4

FEATURED Q&A / Continued from page 3

ing patience, are the only realistic path to reform. But, if true, we are left with a deeply disheartening portrait of Cuba today.”

A **Paul Webster Hare, senior lecturer at the Frederick S. Pardee School of Global Studies at Boston University and former British ambassador to Cuba:** “Revising the Cuban constitution has so far been a top-down process of already-vetted provisions. Raúl Castro wants it completed before the revolutionary generation passes away. There will be no genuine ‘battle of ideas’—a phrase Fidel Castro professed to admire. Cubans rarely think about the constitution as affecting their lives. But during my three years in Cuba, Oswaldo Payá’s Varela Petition showed how the constitution might promote change. The petition delivered many more than 10,000 notarized signatures as required under Article 88 of the current constitution. It challenged the revolution on issues like private property and freedom of speech. The National Assembly refused to consider it. And in 2003, many of the petition organizers were imprisoned. The new constitution will reduce stigmas the revolution associates with private property. But the state monopoly in key sectors like finance, communications, education, retail and manufacturing will remain. Socialism, not private enterprise, will drive policy. Term and age limits on senior officials will not alter the political and media monopoly of the Cuban Communist Party. The separation of presidential functions and a prime minister role suggests checks on any future reforming leader. Foreign investors will be more concerned about practical issues like whether their contracts and asset ownership will be protected. Constitutional changes will not weaken the dominance of Cuba’s military-run conglomerates in all the profitable sectors of the Cuban economy. And foreign investors want other reforms—to choose their own workers and compete with the state sector.”

A **William M. LeoGrande, professor of government at the American University School of Public Affairs:** “Cuba’s new constitution includes a number of important changes to state structure and policy, but two key tenets are unchanged: socialism remains ‘irrevocable,’ and the Communist Party remains the sole leading force for state and society. The structural changes to government appear aimed at improving efficiency. The post of prime minister is revived after being dropped in 1976, and is charged with overseeing the Council of Ministers. Local government is given greater autonomy to deal with local problems without having to wait for instructions from Havana. By recognizing private property and private employment, the document provides Cuba’s emerging private sector with a firm legal foundation, which it has not had until now. The new constitution protects property from expropriation except for public purposes (a Cuban version of eminent domain) and guarantees compensation. It also guarantees foreign direct investment and recognizes it as an important contributor to economic development. Finally, it drops the 1976 goal of building a ‘communist society.’ Whether Cuba’s new constitution stimulates the private sector and boosts foreign direct investment depends on implementation. Constitutional guarantees alone will not attract FDI if investors face a tangle of red tape dealing with Cuba’s bureaucracy. The private sector will not prosper in the face of the sort of tough tax and regulatory regime that the government announced a few weeks before the constitution was unveiled. Cuba’s new constitution points the way toward a potentially prosperous market socialism, but it will take political will to take the practical steps to get there.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at fkuleta@thedialogue.org.

LATIN AMERICA ADVISOR is published every business day by the Inter-American Dialogue, Copyright © 2018

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
fkuleta@thedialogue.org

Anastasia Chacón González
Reporter
achacon@thedialogue.org

 **THE DIALOGUE**

Michael Shifter, President

Genaro Arriagada, Nonresident Senior Fellow

Sergio Bitar, Nonresident Senior Fellow

Joan Caivano, Director, Special Projects

Michael Camilleri, Director, Peter D. Bell Rule of Law Program

Kevin Casas-Zamora, Nonresident Senior Fellow

Ariel Fiszbein, Director, Education Program

Alejandro Ganimian, Nonresident Fellow

Peter Hakim, President Emeritus

Claudio Loser, Senior Fellow

Nora Lustig, Nonresident Senior Fellow

Margaret Myers, Director, China and Latin America Program

Manuel Orozco, Director, Migration, Remittances & Development

Jeffrey Puryear, Senior Fellow

Tamar Solnik, Director, Finance & Administration

Lisa Viscidi, Director, Energy Program

Denisse Yanovich, Director of Development and External Relations

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

Subscription inquiries are welcomed at fretrial@thedialogue.org

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 commentator 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.