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Featured Q&A With Our Board of Advisors

Q At the request of Argentine President Nestor Kirchner, the governor of Kirchner's home province of Santa Cruz resigned last week amid growing protests by teachers demanding greater pay. What is the significance of the protests? What impact are the protests having on Kirchner's popularity? Will they affect his prospects for re-election in October?

A Guest Comment: Manuel Mora y Araujo: "The Santa Cruz protests have two components: First, there is a salary problem. This is not exclusive to Santa Cruz. In Argentina, after pesification, public employees' salaries have lagged behind. Formal workers in private companies have seen strong salary increases, but not so with state companies. Teachers are especially combative because they are highly unionized, and in general their unions are led by people with a combative inclination (more to the left than the average union leader). Teachers' strikes have happened in many provinces (recently in Buenos Aires), and [so have] protests in other places (recently in Neuquen). Second, there is a political problem. Santa Cruz is Kirchner's province, and that province's government responds directly to the president. So clearly it is very profitable, politically, to get tough in that province if one wants to bother Kirchner's government. Moreover, that province is governed in a very centralist way from Buenos Aires. This produces some unrest.

It was enough for the provincial government not to show sensibility and flexibility in the face of the protests for these to become very hard. It was a government error not to act with flexibility from the beginning. Now the new governor is showing himself to be flexible. If this had happened before, many problems would have been avoided. For now, surveys show that the impact [of the protests on Kirchner's popularity] is very low. Santa Cruz is a distant province, rather isolated, and somewhat marginal (very low population). In general, conflicts in the provinces don't have many national repercussions, much less in the case of Santa Cruz, as explained. If it came to have an impact on Kirchner, it would be only because it's his own

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PHOTO OF THE DAY



Argentine President Nestor Kirchner gave the thumbs up sign at an event in the province of Chaco on Tuesday.

Photo: Casa Rosada.

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NEWS BRIEFS

Fifteen Killed in Police Shootout with Mexican Gunmen

Police in Mexico's northern Sonora state killed 15 gunmen in a shootout Wednesday after chasing down a gang of about 40 people suspected of killing five police officers earlier in the day, the Associated Press reported. Sonora state Governor Eduardo Bours did not speculate about the gang's motive in killing the police, but the region has seen a wave of drug-related violence and attacks on police, federal troops, and investigators since President Felipe Calderon launched a nationwide crackdown on drug gangs after taking office in December.

Ecuador's Bond Prices Drop After Central Bank Official Steps Down

Ecuador's sovereign bond prices fell Wednesday following the resignation of Central Bank General Manager Mauricio Pareja, Reuters reported. Pareja, who submitted his resignation on Monday, did not provide reasons for his departure. Local daily *El Comercio*, citing unnamed sources at the Bank, reported that Pareja was asked to step down by members of the Bank's board. Analysts said Pareja's resignation could signal a loss of Bank independence and greater interference in the institution's policies by the government.

South American Beer Sales Help Boost SAB Miller Six-Month Profit

SABMiller Plc, the world's third-largest brewer, early today reported 8.7 percent growth in second-half profit, boosted in part by higher beer sales in South America, Bloomberg News reported. For the six months through March 31, SABMiller recorded net income of \$859 million, up from \$790 million for the same period a year earlier.

Political News

Colombia's Uribe Defends Government Against Accusations

Colombian President Alvaro Uribe on Wednesday defended his government against accusations of collusion with illegal right-wing paramilitary groups and secret phone tapping of opponents. A day



Uribe.

Photo: Casa Narino.

after a jailed paramilitary warlord testified that he had held separate meetings in the 1990s with Francisco Santos and Juan Manuel Santos, currently Uribe's vice president and defense minister, respectively, Uribe said he had "every confidence" in the people in his government, Reuters reported. Uribe and his defense minister said the meetings were public knowledge. Francisco Santos was a newspaper columnist at the time and Juan Manuel Santos said he was seeking to broker a peace deal with the paramilitaries, according to Reuters. Uribe also angrily denied ordering the wiretapping of opposition political figures and journalists. On Monday, Juan Manuel Santos announced that Uribe asked for the resignations of the country's national police chief and head of police intelligence after a government probe confirmed a local news report about the wiretapping. The government does not know who ordered the wiretaps, the defense minister said on Tuesday. The latest allegations add to the political woes of Uribe, who is embroiled in a scandal in which several of his supporters in Congress have been arrested for having ties with paramilitary groups. The so-called "para-politico" scandal has prompted key Democratic lawmakers in the United States to question continued military and counternarcotics aid to the Andean nation, which receives some \$600 million per year from Washington.

Kirchner Vows Action Against Private Rail Operators After Station Riot

Argentine President Nestor Kirchner on Wednesday vowed to take action against private rail operators a day after a rush-

hour commuter train delay led to a riot at a Buenos Aires station, the Associated Press reported. "The state is going to give a swift kick where it counts," Kirchner was quoted as saying during a meeting with other government officials. The president called privatized railroad operators who have not yet upgraded trains "shameless." A riot erupted at the Constitucion commuter rail station Tuesday evening when a train broke down on a track just outside the station, preventing other trains from leaving the station. Stranded and frustrated passengers looted nearby shops and battled some 100 riot police, who responded with rubber bullets and tear gas. Twelve police officers were slightly injured, while 16 people were arrested, according to the AP. Sergio Taselli, the

“The state is going to give a swift kick where it counts.”

— Nestor Kirchner

head of the private concession that operates trains out of the Constitucion station, said the criticism was unfair. The number of passengers on his concession's routes had doubled in three years and "improvements to service can't be made" at the same pace, he said. Passengers have complained for years about delays in Buenos Aires commuter rail service, which was privatized in the 1990s.

Economic News

S&P Upgrades Credit Ratings on Brazil

Standard & Poor's announced Wednesday that it raised its long-term foreign currency sovereign credit rating on Brazil to one notch below investment grade, citing a decline in fiscal and external vulnerabilities and the expectation that the government of President Luiz Inacio Lula da Silva is committed to further reducing those vulnerabilities. In a press release, S&P said it raised the rating on Brazil one notch to "BB+". It said it

also raised the country's long-term local currency sovereign credit rating by two notches, to "BBB" and its short-term local currency sovereign credit rating to "A-3" from "B." In addition, S&P said it affirmed Brazil's "B" short-term foreign currency rating. "Proactive debt management has reduced Brazil's exposure to interest and exchange rate fluctuations," S&P credit analyst Lisa Schineller was quoted as saying. "The switch to higher cost domestic debt from more market-sensitive (albeit currently cheaper) external debt entails upfront costs and highlights the importance of a continued policy commitment to reduce fiscal vulnerabilities." The ratings action followed a similar move last week by **Fitch Ratings**, which raised its credit rating for Brazil to one notch below investment grade. Brazil's **Bovespa** stock index rose to a record high on news of the announcement, ending up 1.74 percent to close at 51,397.3 points, according to Reuters. Brazil's currency, the real, recorded its biggest gain in 11 months, ending at 1.954 per dollar, Reuters reported.

Official: Brazil Needs Up to Eight Nuclear Plants to Meet Demand

Brazil would need to build as many as eight new nuclear power plants to meet energy demand through the next two decades, an energy ministry official said Wednesday, according to state news service Agencia Brasil. Marcio Zimmermann, secretary of development and planning in the ministry, told a conference at state development bank BNDES that assuming Brazil adds 4,000 MW of hydroelectric power per year through the year 2030, it would need to build between six and eight nuclear plants—totaling as much as 8,000 additional megawatts—over the same period of time. That does not include the 1,350 MW Angra 3 plant, construction of which was halted in 1985 due to a lack of funds but which is now being considered for completion. The government's National Energy Policy Council is expected to decide on whether to complete construction of the plant at an upcoming meeting. Brazilian President Luiz Inacio Lula da Silva said earlier this month that Brazil will increase the use of nuclear energy if it cannot build enough hydro-

Subscriber Notice

Inter-American Dialogue Luncheon Discussion on

The State of the State in Bolivia Building a Strong Government on a Weak Foundation

with

George Gray Molina
United Nations Development Program

Frank Mora
National Defense University

Monday, May 21, 2007
12:30 to 2:00 p.m.

Inter-American Dialogue
1211 Connecticut Avenue, NW Suite 510
Washington, DC

RSVP to meetings@thedialogue.org.
Please include your name and affiliation.

electric plants. Lula's comments followed his move two weeks earlier to split up Brazil's environmental protection agency, Ibama, saying it was too slow to grant operating licenses for infrastructure projects, holding up at least two hydroelectric projects on which the government wants

to move forward. The move was seen as weakening Environment Minister Marina Silva, who opposes nuclear energy because of the waste it generates. Brazil currently relies on hydroelectric power to generate more than 80 percent of its energy needs.

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Featured Q&A*Continued from page 1*

province. For the moment, this impact hasn't registered. In no way [will the protests affect his prospects for re-election]. The advantage that Kirchner—and [First Lady Cristina Fernandez de Kirchner]—have in the electoral polls is so wide that it's not likely that even a moderately large impact would put their triumph in the presidential elections at risk."

A Guest Comment: Graciela Römer: "It's true that the public sector and teacher salary conflict is longstanding in Santa Cruz. And it's also true that, during the last four years, two governors had to resign early in situations of overwhelming socio-political crisis. But the current situation is particularly different. We are in an electoral year, and the situation created in Santa Cruz could turn

“... The situation created in Santa Cruz could turn into a functional symbol for the opposition.”

— *Graciela Römer*

into a functional symbol for the opposition. The crisis unleashed in the province, together with other acts of collective violence in recent days—such as the one in the train terminal—seem to show a growing state of social tension in the face of the lack of response to salary demands or to improvement in the quality and efficiency of public services. It is still difficult to predict the level of impact that these specific acts could have on President Kirchner's popularity. But what seems unlikely is that the lack of pressure valves—to facilitate political coexistence, dialogue, or the search for basic agreements—doesn't end up eroding the same bases of legitimacy that

allowed Nestor Kirchner to become the president with the highest popularity since the return of democracy."

A Guest Comment: M. Victoria Murillo: "The conflict with oil workers in Santa Cruz was also violent, and the government considered changes in the income tax. In this case, they're considering higher pay for the teachers. It's not the first time the government will have to concede something in the province. This is the third governor in Santa Cruz since the last election. The elected governor had to resign after the oil workers conflict. Sancho was his deputy governor, who had to resign because of the teachers' conflict. It doesn't look good for Kirchner that there are conflicts in Santa Cruz, whether it's he or his wife [running for election in October], but he or she will win the presidential election. I think it will more likely be his wife because there's no opposition and Kirchner is popular at the national level ... The teachers' problem was in part caused by the government decision to increase salaries across the board in the country and the internal dynamics of the teachers' union in Santa Cruz. Yet, the number of teachers in Santa Cruz is not that high. It's relatively cheap to [raise the teachers' salaries] in Santa Cruz because it's a small province, but there could be repercussions in other provinces."

Manuel Mora y Araujo is Partner and Vice President of *Mora y Araujo Grupo de Comunicacion* in Buenos Aires.

Graciela Römer is Director of *Graciela Römer y Asociados* in Buenos Aires.

M. Victoria Murillo is an Associate Professor of Political Science at Columbia University.

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