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FEATURED Q&A

Will the Shake-Up Hurt Correa's Relations with Ecuador's Military?

Q Last week, Ecuadorean President Rafael Correa fired his defense minister, and three top military commanders quit in protest after Correa claimed their intelligence units shared certain data with the United States—and not with him—during a border crisis with Colombia in March. Will the military shake-up hurt Correa's relations with the armed forces? How will the president, and newly appointed Defense Minister Jaime Ponce, manage civil-military relations in Ecuador?

forces as 'keepers' of the constitutional order to ensure the separation of the armed forces from civilian affairs. But this is unlikely, since in recent months the military has been given greater control over state-like functions, such as reconstruction and public works, and administering state-owned Petroecuador."

A **Guest Comment: Camila Lanusse:** "The border crisis between Ecuador and Colombia denotes a 'before' and 'after' in
Continued on page 4

A **Guest Comment: Andrés Mejía Acosta:** "Beyond the controversy over the leaking of confidential information, Correa's appointment of a new defense minister (the fourth one in less than 15 months) seeks to reiterate to the US and Colombia that he will be a more prominent player in the border conflict. At home, the president—and the new minister—face two longer-term challenges. The first one is to produce a longer-term, feasible, and politically sustainable plan for strengthening the presence of the armed forces without getting involved in the Colombian conflict. This is a tall challenge that no previous politician has been willing or able to tackle due to the country's chronic political instability. As a result, the armed forces have gained *de facto* autonomy to make important military decisions on national security without civilian scrutiny. The second challenge is to define the traditional role of the armed



Lugo Predicts Win, End to One-Party Rule in Paraguayan Election

Paraguayan presidential candidate Fernando Lugo on Thursday predicted victory in Sunday's contest. See story on page 2.

Photo: lugopresidente.com

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NEWS BRIEFS

Argentine Economy Grew 8.8 Percent YoY in February

Argentina's economic expansion slowed to 8.8 percent year-on-year in February as work stoppages at automobile factories brought down the figure from 10 percent in January, the economy ministry reported on Thursday, according to Reuters. After suffering an economic collapse in 2001-02, Argentina's economy has grown more than 8 percent for the last five years, but this year the ministry predicts GDP growth of 7.0 percent.

UN Official: Concentration of Land Ownership on the Rise in Region

Concentration of land ownership is increasing in Latin America, and agrarian reform is needed to give the region's poor better access to farmland, the head of Latin America and the Caribbean for the United Nation's Food and Agriculture Organization said Thursday, according to Reuters. "The concentration of land ownership is increasing in several countries in the region," Jose Graziano was quoted as saying at an FAO conference in the Brazilian capital of Brasilia. "There is a need for agrarian reform, it's necessary to ensure better access to productive resources in Latin America."

Ecuador Renews Telefonica's Mobile Concession Contract

Ecuador has agreed to renew the mobile phone service concession held by the local unit of Spain's **Telefonica** for another 15 years, President Rafael Correa announced Thursday. Regulators did not say how much the company agreed to pay to renew its concession. Correa demanded in February that Telefonica and rival **America Movil** pay a combined \$700 million to extend their operating contracts.

Political News

Lugo Predicts Victory, End to One-Party Rule in Paraguayan Election

Fernando Lugo, the center-left opposition candidate in Paraguay's presidential election, held his final campaign rally on Thursday, predicting victory and an end to 61 years of one-party rule in Sunday's contest, the Associated Press reported. "The bandits remain among us but there's good news: those who have hijacked the dreams of our people have only three days left!" Lugo told about 15,000 supporters in the main plaza in the capital city of Asuncion. Polls show Lugo, a 56 year-old former Roman Catholic bishop, holding a narrow lead over Blanca Ovelar, who hopes to extend the rule of the longtime-ruling Colorado Party, and retired army general Lino Oviedo. At a televised presi-

Correa Warns Colombia, FARC Against Future Incursions

Ecuadorean President Rafael Correa on Thursday warned the Colombian government—and Colombia's FARC rebels—to stay out of his country, saying future incursions would be considered an "act of war," Bloomberg News reported. "We won't allow any regular or irregular foreign force to abuse Ecuadorean soil," Correa told foreign reporters in Quito. "If we find patrols, or FARC camps, on Ecuadorean ground, it will be considered an act of war." Correa broke diplomatic relations with Colombia after a March 1 Colombian military raid on a FARC camp in Ecuador, in which the



Correa

Photo: Palacio Carondelet.

“The bandits remain among us but there's good news: those who have hijacked the dreams of our people have only three days left!”

— Fernando Lugo

dential debate earlier on Thursday, Ovelar called Lugo, who skipped the debate, a "failed priest" and "unfaithful" to the Vatican, which refused to accept his resignation as bishop. Lugo resigned to get around a constitutional ban on clergy seeking office in Paraguay. He rejects being lumped with radical leftist leaders in the region like Venezuelan President Hugo Chavez, and says he is instead "in the middle as a candidate sought by many." During Thursday's rally, he railed against endemic corruption and called on Paraguay's poor majority to choose "a new country." He vowed if elected to improve health care for the poor and create jobs to bring poor migrants home from abroad. Ovelar, the first woman to run for president in Paraguay, promises to help the poor by bolstering farming cooperatives and creating jobs so thousands of poor Paraguayans do not have to emigrate each year, the AP reported. [Editor's note: look for Q&A on the outcome of Sunday's election next week in the *Advisor*.]

FARC's number-two military commander, Raul Reyes, was killed. Colombia has said that computers captured in the raid revealed ties between FARC and the Correa government. On Wednesday, the Colombian government released a video showing Reyes congratulating an absent Correa on his electoral victory in late 2006. Correa said the video was as meaningless as one of a drug trafficker congratulating Colombian President Alvaro Uribe would be. He said he had never heard of Reyes until after the March 1 raid.

Economic News

Ecuador to Suspend Mining Exploration Projects for Six Months

Ecuador will suspend some mining exploration projects for six months while a new mining law is approved to regulate the sector, President Rafael Correa said Thursday, according to Reuters. Correa said a special

assembly rewriting the constitution that is majority-controlled by his supporters is expected to pass a decree today to revoke allegedly illegal concessions and suspend mining activity in medium and large-scale exploration projects while a new mining law is prepared. "Some concessions where there has been investment and exploration and that were about to enter the exploitation phase will be suspended for 180 days until there is a new legal framework," Correa told foreign reporters in Quito. "And we will write new [mining] contracts based on that legal framework." Correa reiterated that he supports large mining projects that could bring billions of dollars in revenues to the Andean nation, but said companies will have to comply with stricter controls and share more of their future profits with the state. "The issue here is not about if we say yes or no to mining ... the challenge is to do it right," he said. The decree expected to be issued today will also revoke concessions owned by companies that had not invested until late 2007 or have failed to pay their government fees, and will slash mining holdings for companies to three concessions. The decree could affect dozens of Canadian companies, including **Aurelian Resources** and **Corriente Resources**, which are exploring for gold and copper in Ecuador, according to Reuters.

Company News

Wal-Mart to Sell Goods in Brazil Online as Part of Growth Strategy

US-based retail giant **Wal-Mart Stores Inc.** said Thursday it will seek to sell its goods online in Brazil as part of a broader growth strategy planned for the South American nation, Reuters reported. Hector Nunez, chief executive of **Wal-Mart Brasil**, said e-commerce will be a crucial part of the the company's growth strategy in Brazil, where Wal-Mart expects to invest 1.2 billion reais (\$US 722.8 million) this year to keep up with fast-growing consumer demand. Nunez said the retailer is "entering into new channels, the most important being e-commerce that we will launch in the second half of this year." He declined to provide details on

The Dialogue Continues

How Can Funds From Natural Resource Wealth Be Best Managed?

Q As high commodity prices are helping to fill government coffers with record revenue from natural resources wealth, many Latin American countries are debating not only the best way to capture this revenue, but also who can best manage it. Are local communities or central governments best equipped to manage such funds? What is the most fair and efficient way to manage revenue from natural resources wealth?

A **Guest Comment: Albert Berry:** "Doing the job really well requires that a government be honest, efficient, fair, and far-sighted. Honesty is important since these rents are almost free money, hence naturally attract the dishonest. Fairness is important, especially in Latin America where inequality is so extreme and it's easy for governments to follow traditional paths that give little attention to the needs of the poor. Efficiency is especially hard to achieve given the pressures for corruption and the fact that the funds bubble up quickly when governments do not yet have well-thought out plans as to how best to spend them and when rapid spending in any case leads to shortages that tend to lower overall economic efficiency. Far-sightedness is very important since many factors push governments to spend too fast—the corrupt are in a hurry to get their chunk, many politicians and others do not understand that the boom is likely to be temporary, and many have short time horizons, which discourage prudence. Who can manage best depends on who has the above positive qualities, and I doubt that one can generalize among central governments with their particular flaws and local governments with their somewhat different flaws. The only national governments that I believe to have han-

dled this problem really well are very advanced (in terms of the sophistication of the voting public) democracies like Norway, where the population will vote for spreading the benefits out over time, and dictatorships, where strong technocrats have a big say (like Indonesia under Suharto). But there is a wide range of performance, with countries like Chile, Colombia, and Brazil at various times over the last decades showing considerable sophistication at least in thinking about the issue (e.g., among their technocrats) but probably little in the political processes of addressing it in practice. Usually the best way to manage the natural resource is to smooth its absorption over time by saving some of it abroad, then using a good chunk of it to either help preserve other tradeables from excessive shrinkage or to develop future comparative advantages by investing in the appropriate research, development, and training. Details of course vary. I have the impression that in Latin America, as in some other regions, both the best and the worst governments are local, with the national government in between. This is one reason why one cannot generalize as to which level is likely to be most effective at handling these resources. It also suggests that the answer depends on where (which state) the resources are found in a given country."

Albert Berry is Professor Emeritus of Economics at the University of Toronto.

Editor's note: the above is a continuation of a Q&A published in the April 16, 2008 issue of the Advisor.

the e-commerce project. Nunez also reiterated Wal-Mart's plans to open 36 new outlets this year in Brazil, almost twice as

many as in 2007. "We will continue aggressively expanding all of our formats," he said.

Featured Q&A*Continued from page 1*

relations between President Correa and the armed forces. It seems as if the executive's initial strategy was to keep the military as an ally by assigning it the management of Petroecuador and a \$1 billion fund for road reconstruction. But apparently, incidents related to the crisis have been perceived by the government as an opportunity to limit the military's veto power. Although the armed forces have enjoyed high prestige within public opinion, their performance on the Colombian border has received a poor evaluation. Moreover, people believe that links between the armed forces and the FARC, as well as with the CIA, could be

“A redefinition of the armed forces' role is necessary, but increasing tensions could destabilize the government.”

— *Camila Lanusse*

real, and believe the military is disloyal to the president, who maintains high popular support. The new defense minister has a critical view of the armed forces' role. His bet is to subordinate them to civil power, as well as dismantle their participation in economic activities. This situation could create discontent within the military. Apparently, the new military heads may be loyal to President Correa, but discontent persists within other officer corps. A redefinition of the armed forces' role is necessary, but increasing tensions could destabilize the government. There is also a risk that military power becomes subordinated to the political projects of a government with scant interest in democratic outcomes.”

A **Guest Comment: Gabriel Marcella:** "The Colombian attack of March 1 on a FARC base inside Ecuador speaks

eloquently of the need for security cooperation in the Andes, and of the failures in Ecuador's defenses. President Rafael Correa's firing of the defense minister and military commanders demonstrates that Ecuador needs a functioning civil-military relationship to deal effectively with national defense and the immediate problems of insecure borders, terrorists, and narco-traffickers. Having four defense ministers (the first died in a helicopter accident) in little more than a year does not generate continuity, confidence, and the smooth integration of civilian authority and military power in the development and implementation of defense strategy. The president, minister of defense, and other civilian authorities should understand military matters and respect the professionalism, sense of honor, and patriotism of the military officer corps. The responsibility lies with Correa. His public accusations about military intelligence failures and that the military was infiltrated by foreign intelligence were counterproductive. Moreover, Correa assigned the military missions that properly belonged to civilians, at a cost in military readiness to confront the FARC, who have been in Ecuador for years. It is not certain that Defense Minister Jaime Ponce can repair the damage, simply because the breach between civilians and the military is deeply rooted in culture and law. A good start would be a realistic assessment of the threat from the FARC and professionalizing civilians in defense matters.”

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