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FEATURED Q&A

Will Chile's Cabinet Shuffle Quell Unrest and Boost Piñera?

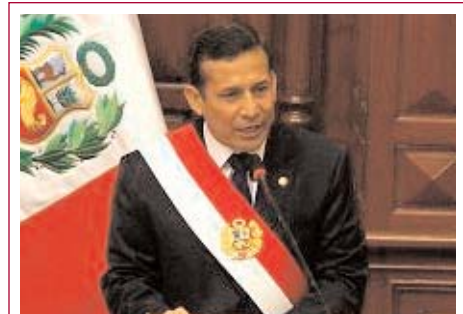
Q Chilean President Sebastián Piñera on July 18 shuffled his cabinet for the second time this year, announcing changes in the leadership of the public works, education and justice ministries, among others. How will the cabinet changes affect unrest among copper miners, who have been on strike for a week at the Escondida mine, and students, who have demanded education reforms? Will the changes help Piñera's approval rating, which has sunk to about 30 percent?

defeat of the well-liked president of the Chilean Football Association in the latter's elections) and sloppy political management (the new minister of energy, Fernando Echeverría, had to quit after three days), and to the tensions within Chile's economic model. The latter has brought much growth and progress to Chile, but is skewed to favor the rich in ways that Chileans find unacceptable. The recent scandal at La Polar, the retail store found to be overcharging tens of thousands of its mostly low-income customers by

Continued on page 3

A Jorge Heine, CIGI Chair in Global Governance at the Balsillie School of International Affairs in Waterloo, Ontario, public policy scholar at the Wilson Center and former Chilean cabinet minister and ambassador:

"President Piñera's new cabinet represents a turning point. After his initial, apolitical cabinet, he is now surrounded by hardcore political operatives. His appointment of the former minister of mining and energy, Laurence Golborne, to public works enhances the visibility of the most popular cabinet member. Yet, how risky this new approach is became apparent when Pablo Longueira, the new minister of economic affairs, announced that he would join the cabinet's political committee, which proved not to be true. The paradox of plunging presidential popularity in the midst of Chile's economic boom can be traced to Piñera's unpredictable and often self-damaging decisions (like ensuring the



Humala Sworn in as Peru's President, Vows to Help Poor

Ollanta Humala was inaugurated Thursday as Peru's president. The leftist former army officer said in his inaugural address that helping the poor will be his administration's top priority. See story on page 2.

Photo: Peruvian Government.

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NEWS BRIEFS

Mexico Withholds Aid for Police Training in Ciudad Juárez

The Mexican government on Thursday said it has suspended \$4.85 million in aid for a police-training program in Ciudad Juárez, the Associated Press reported. The National Public Safety System said that between 2008 and 2010, the city has only trained 6 percent of its police force, and has failed to follow reporting rules. The city's local and federal authorities have been at odds after the federal police shot at a vehicle carrying the city's police chief, Julian Leyzaola.

Menchú to be on Ballot for Guatemala's Presidential Election

Nobel laureate Rigoberta Menchú will be on the presidential ballot in September as Guatemalans choose their next leader, the Associated Press reported Thursday. Menchú's husband said electoral officials notified the campaign that Menchú, who won the 1992 Nobel Peace Prize, was accepted as a candidate. Opponents of her candidacy have three days to file objections. Menchú, a member of the Quiche ethnic group, unsuccessfully ran for president of the Central American nation in 2007.

Vale Posts \$6.45 Bn Profit for Q2, Misses Analysts' Estimates

Brazilian mining giant Vale posted second quarter-profits of \$6.45 billion, up from \$3.71 billion a year prior, but came short of analysts' estimates, Bloomberg News reported. The company, which is profiting from high iron-ore prices, said it would pay an extra dividend of \$3 billion to shareholders. "With high volumes and high prices, this should be a banner year for Vale," said Jordi Domínguez, an equity analyst at Société Générale.

Political News

Humala Sworn in as Peru's President, Vows to Share Wealth With Poor

Ollanta Humala, a leftist former army lieutenant colonel who raised concerns with a radical platform but then moderated his tone before winning election last month, was inaugurated Thursday as Peru's president. In his inaugural address, Humala, 49, vowed to better share the South American country's wealth with

“Peru's peasants and the poor in the countryside in general will be the priority.”

— *Ollanta Humala*

the poor. "Peru's peasants and the poor in the countryside in general will be the priority," Humala told dignitaries and newly installed lawmakers, the Associated Press reported. In his remarks, the new president also quoted former South African President Nelson Mandela in saying that democracy cannot exist together with "social asymmetry." Humala laid out a list of social programs, most of which he promised while campaigning. They include pensions for Peruvians over 65, a gradual increase in the minimum wage to \$270 from \$218 monthly, free preschools in poor areas, university scholarships for high-achieving students in financial need and building hospitals in 50 cities. A \$27 hike in the monthly minimum wage is set for next month. He also vowed to expand railways and highways, invest in public transportation in Lima, rebuild the country's merchant marine and bring back a national airline after Aeroperu went bankrupt more than a decade ago. Humala said his government would keep a larger share of natural gas from the Camisea field in the country for domestic use and also said he would lower gas prices. He did not specify how he would pay for the programs he outlined, but he

has said he would seek windfall taxes from mining companies. Humala may have trouble getting legislative passage for his agenda, however. His party secured only 47 of the 130 seats in Congress, so he will have to seek support from former President Alejandro Toledo's Peru Posible party. Humala's main opposition is from supporters of Keiko Fujimori, whom Humala defeated in last month's runoff election. Allies of Fujimori, the daughter of imprisoned former President Alberto Fujimori, comprise the second-largest voting bloc in Congress. During Humala's inaugural ceremony, Fujimori supporters tried to shout down the new president when he said he was taking office in the spirit of the country's 1979 constitution. The constitution was rewritten in 1993 when Fujimori was in office. It calls for a smaller government role in the economy. Eleven presidents, almost all of whom are from South America, attended Humala's swearing-in. Among the leaders in Lima for the ceremony were Rafael Correa of Ecuador, Evo Morales of Bolivia and Cristina Fernández of Argentina. Venezuelan President Hugo Chávez was recuperating in Caracas from chemotherapy to treat his cancer and did not make the trip to Lima, but he did offer his congratulations via Twitter. The United States sent Dan Restrepo, the White House's top advisor for Latin America. Peru's outgoing president, Alan García, did not attend Humala's inauguration. He left the presidential palace more than an hour before the ceremony after saying earlier that he meant no disrespect to his successor, but wanted to avoid a scene like the one in 1990 when he handed power to Alberto Fujimori. At the time, Congress erupted in jeers following García's disastrous first term as the country was suffering from hyperinflation and a leftist insurgency. Currently, the country is in better shape, with steady economic growth and low inflation.

Chávez Celebrates Birthday Vowing to Beat Cancer and Remain in Power

Venezuelan President Hugo Chávez turned 57 on Thursday and vowed from the balcony of the presidential palace in Caracas to beat cancer and remain in



Chávez

Photo: Venezuelan Government.

power another two decades, the Associated Press reported. Chávez told a cheering crowd that although he expects to lose his hair from chemotherapy treatment, he will be prepared to win re-election next year. "I invite you all to celebrate my 77th," Chávez told the crowd. "I had said I'd leave in 2021. Well, I'm not going away in 2021 or anything. Maybe in 2031." Chávez stood on the balcony with one of his daughters and three grandchildren as candles burned on a giant birthday cake.

Company News

Chile's La Polar Seeks Agreement With Creditors

Chile's **Empresas La Polar** will seek an agreement in court with its creditors in an effort to avoid bankruptcy, Bloomberg News reported Thursday. La Polar, which last month allocated \$900 million for consumer-lending losses, said it wanted to renegotiate payments through the filing of a "preventive judicial agreement." The accord would require the support of creditors representing more than half of the retailer's outstanding debt. If an agreement is reached, La Polar would have protection for 90 days against bankruptcy. "We took this decision due to the difficulty of reaching unanimity with creditors, a task that would take too long," the company's chairman, César Barrios, said in a written statement. "Also, we seek to wrest unjust veto powers from some of them that would have led us to defend the company from requests to declare bankruptcy." The company's shares have plummeted 80 percent since it announced June 9 that company executives restructured \$1 billion of overdue credit without the agreement of the customers involved. The announcement led to the opening of criminal and regulatory investigations. On June 20, bondholders agreed to waive covenants in order to

Featured Q&A

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manipulating their credit cards, is emblematic. There is no indication the new cabinet has made any progress toward solving the student strikes or the ones in the mining sector. Two questions are crucial in upcoming months: whether the government will be able to improve its political management style and whether it is able to reach a grand bargain with the lackluster opposition to move some form of joint political agenda forward. The jury is out on both."

A **Patricio Navia, master teacher of global studies at New York University:** "President Piñera's

cabinet shuffle reflects the growing problems of his administration a year and a half after he took office as Chile's first democratically-elected right-wing president in 50 years. Piñera promised a government characterized by efficiency and technocracy, seeking to draw a sharp contrast with the former center-left Concertación administrations that successfully ruled the country for 20 years. Piñera believed the Concertación focused too much on politics and not enough on sound public policies. He initially appointed a cabinet full of technocrats. Unfortunately for him, politics got in the way and the government repeatedly stumbled, making unwise political decisions and alienating former supporters and sympathizers. Piñera's approval fell to 29 percent in early July.

allow La Polar to suspend pre-payments and two days later, stockholders approved the issuance of \$200 million in new shares that Barrios said would help the company survive.

Redecard Shares Surge as Earnings Beat Estimates

Shares of Brazilian payment-card processor **Redecard** surged 5 percent Thursday, their sharpest increase since May, after the company reported a 14 percent decrease in profit but beat estimates, Bloomberg News reported. The company's shares rose 5 percent to close at 26.25 reais in São

In the recent cabinet shuffle, he replaced several of those technocrats with experienced politicians. Piñera wants to better balance his cabinet, combining technocratic abilities with political experience. This change of course has called into

“Piñera wants to better balance his cabinet, combining technocratic abilities with political experience.”

— *Patricio Navia*

question his ability to make the right calls to begin with. In addition, Piñera has had to give in to the pressures from the Independent Democrat Union, or UDI, the far right political partner of his coalition, by appointing seasoned UDI politicians, formerly in the Senate, to his cabinet. Piñera's power has been diminished after the cabinet shuffle, but the new ministers will put their political experience to work to help lift up the rather disappointing Piñera administration. Though the economy is doing fairly well, politics in Chile is not. To a large extent, that reflects Piñera's failure. Now that he has brought experienced political ministers into the cabinet, he seeks to fix

Continued on page 4

Paulo. Redecard rival **Cielo** also saw its shares advance with a 2.8 percent rise to 42.30 reais. Redecard's net income for the second quarter declined 14 percent year-on-year to 322.6 million reais due to higher costs and lower fees. That result was higher than the average estimate of 291.8 million reais from analysts in a Bloomberg survey. The value of Redecard's credit- and debit-card transactions increased 33 percent to 55.7 billion reais (\$35.6 billion), the company added. That result beat an estimate of 53.6 billion reais from **Raymond James**, according to a research note by analysts Federico Rey-Marino and Francisco Pereyra.

Featured Q&A*Continued from page 3*

some of those problems. He does not have that much time left. A year from now, Chile will enter its next electoral cycle with the municipal elections. If the government does not improve its performance by then, the Concertación will have the better chance to win the 2013 presidential elections."

A **Guillermo Holzmann, professor and assistant director of the Public Affairs Institute at the University of Chile:** "Piñera's cabinet changes have been done in a complex environment as a result of three factors: a 30 percent approval rating that is the lowest of any president since the return to democracy; a wide-ranging and massive social mobilization of students and workers demanding quality education, social equality, better distribution of wealth, an end to for-profit education and more; and the need to reshuffle the cabinet to make better and more-efficient decisions. In addition to this, there is also the criticism that transverses the political parties and Congress. It is Piñera's paradox. The country has seen higher economic growth in the past few years, despite the earthquake, but that is not reflected in Piñera's approval ratings. In this situation, where surveys assess the president's decision-making and leadership capacity, the results have questioned

the government's strategic management design and inability of the political system to respond to social demands. The new cabinet has more political experience and fewer technocrats, which is expected to help establish a dialogue and political

“The changes do not incorporate representatives from the mobilized social sectors.”

— *Guillermo Holzmann*

accord with the opposition and Congress to channel social demands. However, the changes do not incorporate representatives from the mobilized social sectors. Without a doubt, it is one of the most difficult times of Piñera's presidency. So far, the cabinet reshuffle does not ensure a rise in the president's popularity and it is estimated that his disapproval levels will be maintained until the last quarter. "

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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