

**AN ANALYSIS OF THE POLITICAL AND SOCIO-ECONOMIC  
SITUATION IN LATIN AMERICA**

Background Document for the Working Group on Latin America,  
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## **Sammendrag (norsk)**

Denne analysen av dagens situasjon i Latin-Amerika, politisk, sosialt og økonomisk, tar utgangspunkt i følgende mandat: (i) å identifisere "hvem de nye politiske regimene i regionen representerer og den politiske tendensen de er uttrykk for"; å gi "en beskrivelse av de folkelige bevegelsene, kvinnenenes og urfolksorganisasjoners rolle" i samfunnet; og (iii) analysere oljeressursenes strategiske betydning og de politisk-økonomiske modellene for produksjon, distribusjon og fordeling av energi." Analysen tilnærmer seg først situasjonen i Latin-Amerika på land-nivå, for så å trekke konklusjoner på det overordnede plan. Analysen inkluderer land profiler for ni søramerikanske land: Argentina, Bolivia, Brasil, Chile, Colombia, Ecuador, Peru, Uruguay og Venezuela. For hvert enkelt land, identifiseres relevante politiske og sosiale aktører, aktuelle temaer, og dynamikken mellom aktører. Det fokuseres spesielt på nåværende regimer, politiske partier, viktige folkebevegelser, samt forvaltning av naturressurser, spesielt energisektoren.

Generelt, er den regionale politiske konteksten i Latin Amerika i dag preget av demokratiske valg i en rekke land. I år holdes det presidentvalg i fem søramerikanske land (Colombia, Peru, Ecuador, Brazil og Venezuela), samtidig som at to andre land nettopp har fått en ny president (Chile og Bolivia).

### **Aktører**

**Dagens regimer.** Alle land inkludert i analysen har i dag demokratisk valgte ledere. Situasjonen var annerledes for bare 20 år siden. Med unntak av Colombia, hører alle dagens regjeringer til sentrum eller sentrum-venstre orienterte partier og koalisjoner. Spørsmålet er: hvor alternative er disse i forhold til tradisjonelle politiske partier? Det kan være nyttig å tenke på de aktuelle regimene mer i forhold til et spektrum som går fra høyre til venstre, heller enn faste høyre-sentrum-venstre posisjoner. Selv i de tilfellene hvor den sosiale agendaen ble presset ut i overgangen fra valgkamp til politikktutforming (som under president Gutiérrez i Ecuador, og til en viss grad, med Toledo i Peru), viser flertallet av de aktuelle regimene stor engasjement når det gjelder sosiale programmer og fattigdomsreduksjon. Vi ser også sentrum-venstre tendenser når det gjelder forvaltning av naturressurser. Betegnelsen "the pink tide" beskriver dagens situasjon bedre enn "den røde bølge". Dagens regimer legger ikke skjul på at de vil sikre økonomisk vekst og stabilitet; forskjellen er at de også vil fremme en sosial agenda.

En annen viktig politisk aktør i Latin-Amerika er de **politiske partiene**. Det første som må nevnes her er den generelle svakheten i tradisjonelle partier, spesielt konservative, høyre-orienterte partier. I flere land kan vi se at deres sosiale grunnlag er veldig redusert. Det politiske partisystemet har vært i krise siden 80-tallet i de fleste latinamerikanske land. Nye partier og koalisjoner er blitt dannet foran hvert eneste presidentvalg. På den måten har uavhengige kandidater fått med seg folkelig støtte på bekostning av de tradisjonelle partiene. I de landene hvor sosialistiske eller venstre-orienterte partier har vunnet presidentvalget (som i Brasil, Uruguay, og Bolivia til en viss grad), har dette skjedd etter flere mislykkede forsøk. I noen land, som Ecuador og Peru, er en samlet venstre koalisjon fortsatt på prosjektnivå, mens i andre land - som Colombia – kan vi se en tidlig utvikling av det man kaller ”det demokratiske venstre”. I begge tilfeller vil det være lenge til før vi ser en ren venstre regjering på plass. Dette betyr ikke at venstre-orienterte koalisjoner, som for eksempel urfolksbevegelsen i Ecuador, ikke vil kunne komme til makten i en ikke så lang fremtid.

Når det gjelder **sosiale og folkebevegelser**, viser latinamerikanske samfunn et mangfold av organisasjoner, særlig på lokalt nivå. Men det er kun i noen enkelte land – som Brasil og Bolivia - at disse har klart å bygge brede allianser eller fronter for å fremme felles krav og agendaer. Det er ikke fravær av folkelig organisering som hindrer politisk deltakelse av ekskluderte grupper i samfunnet (som de fattige, kvinner, eller urbefolkning), men heller de svake eller manglende institusjonaliserte mekanismer for sosial integrasjon og deltakelse, som ligger til hindring, både i forhold til staten og til andre aktører i det sivile samfunnet. Desentraliseringsprosesser er blitt implementert i en rekke land; disse danner grunnlag – til en viss grad – for folkelig deltakelse på lokalt nivå. Utfordringen er derfor å styrke og institusjonalisere slike mekanismer, så vel som å utvikle lokale aktører som er i stand til å formulere sine krav og utøve sine rettigheter.

I enkelte land, som Bolivia og Ecuador, har **urbefolkningsorganisasjoner** spilt en meget aktiv rolle i den politiske arenaen de siste tiår. De har stor mobiliseringskraft, bred legitimitet og representativitet blant lokalbefolkningen. Sammen med Peru har disse tre landene de største urbefolkningsgrupper i regionen. Urfolksbevegelser har vist at muligheten for å oppnå politiske mål er tilstede, spesielt hvis det kombineres med allianser med andre sosiale aktører, som fagforeninger og grasrotsorganisasjoner. Det er interessant å merke allikevel, at med få unntak, er urfolks krav ikke bare forenlig med nasjonal stat modellen, men at de samme krav finner sin legitimitet i borgerrettigheter som gjelder for det nasjonale samfunn. Krav om sosial og politisk deltakelse er ikke nødvendigvis i

motsetning til urfolksidentitet. Her vil selvfølgelig nasjonale kontekster være avgjørende for å se hvorvidt denne deltakelse tillates og fremmes.

**Kvinneorganisering** er utbredt i Latin-Amerika i dag, både som selvstendige grupper og som støttespillere for sosiale programmer gjennomført av offentlige, så vel som private organisasjoner. Enkelte søramerikanske land har kommet langt i å fremme kvinners rettigheter; det finnes i dag egne ministerier for kvinnesaker og likestilling. Stadig flere små jenter og kvinner har adgang til utdanning, på lik linje med gutter og menn. Den sosiale ulikheten som rammer kvinner er sterk tiknyttet klassesethørighet, der fattige kvinner (og barn) utgjør en særlig utsatt gruppe. Kvinneorganisasjoner arbeider derfor intenst for å fremme fattige kvinners behov og interesser.

### **Overordnede tema**

I Latin-Amerika som helhet ser vi at det demokratiske styresettet er kommet for å bli. Demokratiske valgprosesser gjennomføres nå i de aller fleste land, både for president-, kongress-, og lokalvalg. Valgdeltakelsen blant befolkningen har økt jevnt de siste 20-30 årene, og er relativt høyt, 73% i gjennomsnitt. Likevel finnes det store variasjoner mellom land. I Peru for eksempel, hvor man er forpliktet til å stemme, deltok opptil 89% av velgerne i det siste presidentvalget. I Colombia fant kun 45% av de stemmeberettigede veien frem til valglokale. Hvorfor det? Som vi vet, er demokrati mye mer enn valg. For at **demokrati** skal bli det organiserende samfunnsprinsippet, kreves det et åpent og dynamisk samspill mellom en stat som kan garantere borgerrettigheter, og et sivilt samfunn som både kjenner til og er i stand til å kreve og utøve sine rettigheter. Selv om det er trygt å si at demokratiet er på konsolideringsvei i Latin-Amerika, er det et godt stykke igjen til målet. Mistillit til det politiske systemet og offentlige institusjoner er fortsatt utbredt, blant annet på grunn av manglende respons, lite effektivitet, og ikke minst korrupsjon. Denne mistilliten utgjør en trussel mot den demokratiske konsolideringen. Den svekker statens legitimitet og gjennomslagskraft. I en region hvor folkelig organisering er meget utbredt på lokalt nivå, er institusjonaliserte mekanismer for folkelig deltakelse fortsatt en mangelvare. Det er derfor behov for å styrke eksisterende, eller etablere nye mekanismer, slik at dialog mellom stat og folk blir både legitimt og tilfredsstillende for begge parter.

Akkurat som med demokrati, er **rettsstaten** fortsatt under oppbygging i Latin Amerika i dag. Korrupsjon, overgrep og brudd på menneskerettigheter forekommer daglig i de fleste land. I enkelte land er dette tilknyttet ulovlig virksomhet og kriminalitet, som for eksempel narkotikaproduksjon og smugling i Colombia, Peru og Bolivia. Colombia er det

eneste landet i Sør-Amerika hvor det fortsatt foregår en intern bevæpnet konflikt, med dramatiske konsekvenser for tusenvis av mennesker. I Chile, Argentina, og Uruguay er menneskerettighetsagendaen særlig preget av overgrep begått under autoritære regimer. I Peru gjelder dette den interne konflikten fra 80-tallet. Organisasjoner i det sivile samfunnet har fortsatt behov for støtte, slik at disse agendaene ikke settes til side. Deres arbeid er avgjørende for å gjøre slutt på straffefrihet, og for styrke folkets tillit i rettsstaten.

I denne sammenheng er det viktig å merke seg en økende debatt omkring konstitusjonelle reformer, eller enda mer, behovet for å lage nye **grunnlov** i enkelte land. Dette var en av hovedsakene i Bolivias valgkamp. Det ble også lansert av den nasjonalistisk kandidat i Peru, og blir muligens et stort tema også i Ecuador. Ser vi litt tilbake i tid, var det Venezuela som innledet denne runden med nye grunnlov i regionen. Stadig flere sosiale bevegelser og politiske aktører anser grunnloven for å være et redskap ikke bare for konsolidering av rettstaten, men også for sosial utjevning.

Hovedutfordringen bak mye av dagens utforming av nasjonal politikk, så vel som folkelige krav er den eksisterende **fattigdom og sosial ulikhet** blant store deler av befolkningen. Til tross for at de aller fleste land i regionen har opplevd jevn økonomisk vekst i de siste fem-ti år, er fattigdom fortsatt omfattende, til og med i Uruguay. Situasjonen forsterkes fordi fattige folk ofte utsettes for andre former for sosial eksklusjon, for eksempel rasediskriminering. Alle nasjonale regjeringer i regionen har satt i gang sosiale programmer til å bekjempe fattigdom, men resultatene er ikke like gode. ”Fome Zero” programmet i Brasil anses for å være vellykket; det samme gjelder noen ”Misiones” i Venezuela. Imidlertid er det flere som stiller seg kritisk til slike programmer, enten fordi de ansees for å være ”asistencialistas”, en slags nødhjelp, og fordi de lett kan manipuleres politisk, ved å skape klientelisme. Nasjonale regjeringer har begynt å innse at hovedårsaken til fattigdom ligger i den ekstreme ujevn fordeling av ressursene i sine respektive land. Under det siste årsmøte i den inter-amerikanske utviklingsbank, erkjente representantene for nasjonale regjeringer koblingen mellom fattigdom og behovet for sosial utjevning. Dette avspeiler de nye politiske trendene i Latin-Amerika.

**Omfordelingsreformer** er en måte å oppnå sosial utjevning på. De innebærer store konsekvenser, både politisk og økonomisk. Slike prosesser kan skape både støtte og motstand blant befolkningen, avhengende om hvordan man påvirkes av dem. Å forvalte naturressurser på en måte som fremmer sosial utjevning betyr å følge demokratiske spilleregler også i den økonomiske organisering av samfunnet. Institusjonalisering, transparens, ansvarlighet og deltakelse er like gyldige og viktige her enn som i den

politiske arenaen. Få regjeringer tør imidlertid å gjennomføre omfordelingsreformer uten å ha bred folkelig støtte bak seg. Venezuela er allerede i gang med reformer i oljesektoren. Brasil har tatt enkelte skritt, men det er fortsatt langt igjen før vi kan snakke om en jordreform. I Colombia er jordreform også på dagsorden blant folkelige organisasjoner; for staten, dessverre, er dette ingen prioritet. Ofte brukes argumenter om produktivitet og profittmaksimering mot krav for sosial utjevning og deltakelse i de godene naturressurser byr på. Norges egne historiske erfaring viser hvor urimelig slik argumentasjon er. Det finnes en rekke forvaltningsformer som kan være effektive, og samtidig ivareta nasjonale og folkelige interesser.

De fleste land i vår analyse er rike på **naturressurser** og baserer sin økonomi på deres utvinning, produksjon og eksport. Disse er ikke smertefrie prosesser, heller det motsatte. I den siste tiden har debatten om forvaltning av naturressurser fokusert mye på olje og gass, ikke bare på grunn av deres strategiske betydning i det internasjonale markedet, men også på grunn av deres rolle i nasjonal økonomisk utvikling og stat-nasjons bygging. I Venezuela så vi hvordan statlige kontroll over PDVSA ble til en løsrivelse fra dominerende makteliter. I Bolivia har kontroll over gass-industrien blitt et symbol for nasjonal suverenitet. Noe tilsvarende skjer med andre naturressurser som kobber og gull i andre land. Hensyn til naturmiljø og lokalbefolkning som berøres av slik produksjon byr også på en rekke utfordringer. Kort sagt kan vi si at de nye søramerikanske regimer bruker i hovedsak to forskjellige måter å forvalte ufornybare ressurser på: indirekte, gjennom skattelegging av virksomhet gjennomført av private selskaper (som i Bolivia før nasjonalisering, eller Perus Camisea-gas); eller direkte, gjennom statlige selskaper som har ansvar for alle ledd i produksjonsprosessen, enten alene eller i *joint ventures* (som i Venezuela). Begge måter har sine fordeler og ulemper. For at inntektene fra utvinning av naturressurser skal komme staten og folket til gode, kreves det imidlertid ikke bare teknisk ekspertise, men også transparens og en klar fordelingspolitikk, som tar sikte på å oppnå sosial utjevning. De nye søramerikanske regimene, med klare mandat og folkelig støtte, er muligens i bedre stand til å gjennomføre omfattende strukturelle reformer enn det var tilfelle tidligere.

I hvilken retning går da de latinamerikanske landene? Alt tyder på at vi er foran en endringsprosess, endog utfallet er fortsatt usikkert. De nåværende regimer er mer imøtekommende til folkelige krav enn tidligere, nettopp fordi de representerer folkelige bevegelser og har bred folkelig støtte. Formelt demokrati bidrar til at disse gruppene

oppnår politisk representativitet på lokalt og nasjonalt nivå, men er ikke nok til å garantere sosial og politisk deltakelse. Til det trengs det institusjonaliserte mekanismer for dialog og ansvarlighet mellom staten og folket. De strukturelle reformene som er nødvendig for å omfordele ressurser i latinamerikanske land er så omfattende at nasjonale stater trenger bred folkelig støtte for å kunne gjennomføre dem. Det finnes mange utfordringer underveis, blant annet særinteresser, politisk uenighet, og korrupsjon; disse bør ikke undervurderes. Vår konklusjon er imidlertid at dette skifte i politisk retning blant latinamerikanske land byr på en unik mulighet til å igangsette strukturelle endringsprosesser i regionen. Det gjenstår å se om de nye regimene og folket de representerer lever opp til denne historiske muligheten.



# 1. Introduction

The political landscape in Latin America is undergoing a process of change. Through democratic processes representatives from labour unions, indigenous peoples and even former resistance movements have been elected into government in several Latin American countries. These are new and important signals from a region that is known for its entrenching social and economic inequality, and elitist power structures. The Ministry of Foreign Affairs of Norway wishes to reshape its development cooperation with Latin America in order to support these democratic developments.

On this background, a Working Group for Latin America was constituted in February 2006 in order to develop a set of recommendations to the Norwegian government about the future of development cooperation with Latin America. According to the mandate for the Working Group, their recommendations must be based on an analysis of the current situation in the region which, among other issues, provides:

1. an understanding of what sectors of the population are represented by the new political regimes in Latin America represent, and what political trends this expresses.
2. a description of popular movements and the role of women's and indigenous peoples organisations; and
3. an analysis of the strategic significance of energy-based resources (oil and natural gas) and the political-economic models for production, distribution and distribution of energy.

The Working Group stands free to highlight other topics and issues that it considers relevant to understand the current political and socio-economic situation in Latin America. Work on the political and socio-economic analysis must be taken place parallel and in direct relation with the activities conducted by the Working Group, i.e. seminar discussions. In this way, the Working Group will at the end of its mandate present two reports to the Ministry of Foreign Affairs: A set of recommendations (Recommendations Report) and a background document (Analysis of the political and socio-economic situation in Latin America). The present report constitutes the background document for the recommendations proposed by the Working Group.

## Structure of the report

The report starts with presentation of the methodological framework used to approach the political and socio-economic situation in Latin America (Section 2). This is followed by nine individual country analyses, which constitute the main section of the report (Section 3). Issues and debates are succinctly stated in order to provide a general overview of the current situation, the implication being that a number of issues of relevance for the

individual reader might not have been included in this report. An overview of regional organizations is provided in Section 4. In the report's final section, we conclude with some reflections about common trends and relevant issues identified in the current Latin American context, following the same framework as in the country analyses. The analysis presented in this report is based on the review of various sources, such as international and national newspapers accessed mainly through the internet, country reports by national and international organizations, selected academic literature, and relevant academic debates from the LASA Congress 2006. The report has also benefited from inputs by individual members of the Working Group with expert knowledge in particular countries. To make the text more accessible, we have kept the use of footnotes and references to a minimum; a complete list of references and sources is presented at the end of the report.

## **2 . How to approach the current situation in Latin America? A methodological framework**

This analysis of the political and socio-economic situation of Latin America is guided by the issues raised during the seminars of the Working Group for Latin America, and bears some correspondence with the focus and structure of its “twin” Recommendations Report. In this section, we present the methodological framework used in this report, which can be summarized as a focus on *actors, resources, issues & dynamics*, and *trends*. We discuss each of these elements in turn.

**Actors.** A focus on actors allows the identification of organised, formal and informal subjects, groups and/or networks that might bear influence in the socio-political and economic development of a given country. This operational definition implies the agency – active or latent – of social, political and economic actors in the public scene. In this manner, it is possible to talk about public institutions, social movements, political parties, or private sector enterprises as actors with the capacity to engage into a process of contestation and social change.

For the purpose of this report, we will focus our attention on two distinct types of actors: state-actors, that is, public institutions and representatives of the state; and non-state actors, that is, civil society organizations and the private sector. It is worth noting that this distinction does not presuppose a relationship of conflict or opposition between state and non-state actors. The nature of the relationship between actors is an empirical question which is to be asserted upon closer analysis, and not taken for granted *a priori*. Furthermore, we cannot expect the same kind of actors to have the same influence or even presence in all countries of the region. The particular context and the current political

situation will determine the political actors to be emphasized in our analysis. To the extent possible, we will focus our discussion on:

- Current **governments** and selected **public institutions**, particularly those whose mandate is to receive and mediate demands from, and establish contact/engage into dialogue with individual citizens and civil society organisations.
- **Social movements** and **political parties**; that is, organised groups which represent different sectors of civil society. This may be supportive or not of current governments.

While recognizing that the Catholic Church constitutes an integral part of Latin American societies, both in terms of belief and organization (parishes and networks), the focus in this analysis will be on secular actors. The exception to this rule will be Brazil, where the Church has also played an important political role.

**Natural resources.** The extraction of natural resources constitutes an important part of the national economies of Latin American countries. In this report we will focus on oil, gas and minerals, which are most relevant for governmental taxation. Hydroelectricity, fisheries and forestry will be dealt with only in the absence of energy-related resources. We will approach resource management (extraction and distribution of incomes) both in general terms and by identifying the main actors in each sector. Our intention is to assess the overall significance of these sectors in the national economy, i.e. their share in total production (Gross Domestic Product - GDP) and labour use, in order to assess how the activity affects the daily lives of local populations. However, national accounts at a sufficiently detailed level turned out to be difficult to obtain and will hence in some cases rely on more indirect (and not necessarily comparable) sources of information.

There are normally considerable rents in the natural resource sector beyond pure extraction costs. Our analysis of natural resources aims to assess the share which accrues to the public through taxation. We will hence report the prevailing rules and laws of taxation for the main resource sectors of each country when such were available, and further estimate the overall figures.

Finally, how are the resource rents actually being used to achieve political, social and economic goals in each country, both internally and internationally? Such monetary flows are difficult to trace. Political and economic pressures are hard to identify in an explicit manner. We must hence rely on more ad-hoc sources and non-statistical material to show how natural resource extraction influences both national and international policies and economies.

**Issues & Dynamics.** A focus on issues will allow us to approach the various ways in which actors interact with each other with regards to core contested issues. We aim to

answer questions such as: What are the issues at stake? What are the terms of engagement? What are the mechanisms in place for interaction between actors? In this report, we consider issues and the dynamics between actors to be fully intertwined, and have chosen to present them under the heading of "Issues & Dynamics". It is worth noting that the dynamics of social and political interaction are often closely interrelated with issues related to the production and (re)distribution of national resources. In fact, many of the most confrontational dynamics between social and political actors in Latin America are about the management of natural resources and the incomes they produce. However, it is important to remember that struggle and contestation are not limited to natural resources, but can also involve political power, democratic participation, or rights-based agendas. Finally, the dynamic character of interaction and relevance of issues at hand might go beyond national territorial borders, adding a regional dimension that will be explored accordingly. A comprehensive understanding of socio-political processes is therefore needed.

**Trends.** Given the actors and the dynamics present in the political and socio-economic stage, what trends can be observed in individual countries, and in the region as a whole? In approaching these trends, we need to place the current situation in context, taking into account broader processes of social change such as the return to democracy and the expansion of market liberalism. The identification of trends, either positive or negative, will help ascertain the needs for the reinforcement or change of direction of current national policies, as well as those of international development cooperation.

### **3. Country Analyses**

The individual country analyses that are presented in the next section make use of the elements discussed in this methodological framework. Thus we aim to identify relevant actors, natural resources and issues/dynamics in the current political and socio-economic situation, in order to ascertain current trends in nine South American countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, and Venezuela.<sup>1</sup>

#### ***Argentina***

The current political and socio-economic situation in Argentina is characterized by stability and economic growth. Since the beginning of his administration in May 2003, President Kirchner has worked towards the consolidation of an economic recovery process so much needed after the financial collapse of 2001. His independent attitude towards

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<sup>1</sup> Key national figures such as population, macro-economic figures, poverty and government expenditure are presented in Table 1, Annexes.

international financial institutions and his open commitment to bring justice for human rights abuses committed during the military dictatorship have gained him widespread popularity. With 75% rate in opinion polls, Kirchner is perhaps the most popular president in the region. However, the challenge of poverty, initial signs of a rising inflation, and some tendencies to the concentration of power around the presidency could threaten the prosperity experienced so far.

### **Actors**

Until the last decade the traditional division in Argentine politics has been between “peronists” and radicals, the first ones organised in the *Partido Justicialista* (Justice Party), the latter in the *Unión Cívica Radical* (UCR; Radical Civic Union). This clear division started to disintegrate gradually throughout the 1990s, leading to the formation of numerous splint-groups in both sides. Former governor of the oil-rich province of Santa Cruz, current President **Néstor Kirchner** led a centre-left Peronist coalition called *Frente para la Victoria* (Front for Victory) in the 2003 presidential elections. He had to confront other Peronist leaders from the Partido Justicialista, including former President Carlos Menem. Kirchner’s campaign rejected neo-liberal policies and emphasized production, justice, employment creation, equality and social services. His clean and honest record was one of his strongest cards. In the first round of elections, he obtained only 22% of the vote, two points behind Menem. The former president however, withdrew from the run-off elections, as corruption scandals involving him had increasingly damaged his public image. What started with a rather weak mandate, has developed into widespread support to Kirchner’s leadership, as demonstrated by the positive results his party obtain in the parliamentary elections of October 2005.

UCR and related groups such as *Afirmación para una República Igualitaria* (ARI) and *Recrear* constitute the largest political opposition force in Argentina. The political scene is bound to undergo changes this year, given that new presidential elections are scheduled for early 2007. New political fronts have been announced, such as the formation of an electoral list representing the labour union *Central de Trabajadores Argentinos* (CPA), which is in opposition to what they call peronism-Kirchner style. It is being speculated that former economic minister **Roberto Lavagna**, one of the main architects of the economic recovery, will soon announce his candidacy to presidential elections. Lavagna was removed from his post by President Kirchner late last year, after disagreements on how to deal with rising inflation.

Among civil society organisations, human rights organizations continue to be the most notorious ones, given their active participation in current prosecutions and investigations concerning human rights violations during the military regime. Argentina’s Supreme Court ruled in June 2005 that amnesty laws protecting former military officers were unconstitutional, clearing the way for the initiation of legal prosecutions. The *Mothers of the Plaza de Mayo* organisation has played a vital role in moving forward the human rights

agenda. Female literacy and higher education rates in Argentina are among the highest in the region, thus accounting for a strong participation of women in public affairs. 30% of congressional representatives in Argentina are women, the second highest rate in the region.

### **Issues & Dynamics**

In macro-economic terms, Argentina has recovered from the financial crisis it suffered in 2001, which occurred after a long period of recession, and several attempts to avoid economic collapse. The situation reached climax in December 2001, with restrictions on bank withdrawals, violent demonstrations and protests, and the resignation of President de la Rúa. A series of presidents held office briefly, leading to the appointment of interim President Duhalde in 2002, who eliminated the fixed-exchange rate with the dollar, causing the *peso* to devalue. Later that year, Argentina defaulted its debt repayment to the World Bank. The economic crisis left half the population in poverty and enforced a deep mistrust in the political leadership. However, it was during the Duhalde administration that the first measures towards economic recovery were taken.

The administration of President Kirchner maintained right from the start, a position of independence towards the International Monetary Fund. The government was quick to propose a debt-refinancing plan, offering new bonds for old, defaulted ones. In this way, Argentina's public debt was reduced from USD 80 billion dollars to 35 billion in 2004. In early January 2006, Argentina paid off its USD 9.5 billion debt to the IMF by tapping international reserves that have swelled in recent years as the economy rebounded from recession. Besides its economic significance, the repayment had high symbolic meaning; the government announced that "the country is reclaiming its autonomy." This has indeed improved Kirchner's popularity in the country.

While economic growth last year reached 8%, critics of the government argue that the upsurge in the Argentine economy is mostly due to favourable international conditions, rather than government's policies themselves. They point to the continuous low wages (which remain behind the inflation index), and relatively high unemployment rates (currently at 12%). Poverty is still widespread. By the end of 2004, 40% of Argentine lived under the poverty line. Regional differentiation in terms of poverty is also widespread, with the share of poor people reaching 53% in the north-eastern region. Recent inflation surges have been dealt through temporary price controls, which are to expire in June 2006; these may become permanent if inflation is not kept under control. The particular case of utility-prices is discussed in the next section.

The current administration has kept the human rights agenda as a high priority, and pushed forward the renewal of Supreme Court members, whose credibility had been undermined in past regimes. These changes paved the way for a new look to human rights abuses committed by officers during the military dictatorship in the period 1976-1983. Between

10,000 and 30,000 people were killed or disappeared during the “dirty war”. The lift of amnesty laws last year has brought painful memories of the military period back to the public agenda.

In spite of its broad popular support, the Kirchner administration is perhaps taking supporters a bit too much for granted. The President Kirchner has been highly criticized for choosing a national date and place to make a political rally for what many believe will be the announcement of this candidacy for re-election. In fact, Kirchner has chosen the anniversary of the May Revolution (May 25) taking place in the May Plaza to celebrate the third year of his administration. Critics argue that this is an attempt to blend national symbols and values with one particular political party. The government’s attempt to influence public transport firms to let people travel free for the occasion is perhaps an unnecessary movement on the part of a government that is, otherwise, very popular.

The construction of cellulose plants on the Uruguayan side of river Uruguay has become an issue of confrontation between the Argentine and Uruguayan government. Argentina has recently announced that it has filed a suit against Uruguay at the International Court of Justice in The Hague (the first time Argentina turns to the international court). The government has received ample support for this action from governors, mayors, legislators and union leaders across the country. It has further endorsed an environmental agenda aimed to combine “sustainable development with growth and equity”. Environmental organizations however, are more sceptical to this sudden turn, waiting to see concrete results.

### **Natural Resources**

Argentina is one of the most developed countries in South America and as such one of the first to exploit its natural gas. The deposits in the southern and eastern regions were earlier enough to supply consumer demand, industrial activity and exports to Chile and Brazil. It is still the largest gas producer in South America (table 3), but the deposits are being tapped without replacement as new investments and search activity are very limited. This historically contradictory situation is an effect of the economic crisis that hit the country in 2001, devaluating the *peso*. Multinational companies were invited during the structural adjustment period under President **Menem** to own and operate at all levels, i.e. production, distribution and utility. The former state gas company was privatized and finally taken over by the Spanish company **Repsol**. The result was competitive pricing and considerable investments, increasing gas production with 70 % between 1992 and the economic crack in 2002.

The rules of the game changed dramatically under President **Kirchner**. As part of the crisis economic package utility prices were frozen in the old *Peso* value, implying a considerable gas price reduction if denominated in American dollars. Home supply has fallen because companies find further investments less lucrative, while consumption demand has risen

considerably due to price regulation. The utility price has become a symbol of the current presidency, making it difficult to go back to using the price mechanism to balance the market. The solution has been to cut high priced exports to Chile instead. The Argentinean government is hence not only defaulting on agreed long term contracts and putting their neighbours in a difficult energy situation; they are further willing to subsidize their own consumers considerably. Taxes do not reflect the public share of the resource rent; instead, consumers enjoy artificially low prices at the cost of company profits. Enforced subsidies, however, are considered to be highly inefficient given that prices are not used to balance supply and demand.

### **Trends**

Argentina is undergoing a period of economic and political stability. The administration of President Kirchner has a good chance to secure a mandate for a second term, as long as it avoids the temptation of concentrating power on the executive. Perhaps the greatest challenge for the government is the rising inflation and ultimately, poverty. At the moment however, other candidates that could pose a serious challenge to the re-election are yet to be seen.

*Argentina in the region.* Argentina is a member of MERCOSUR, yet it has taken an increasingly uncompromising position to neighbouring and co-member country Uruguay, due to a disagreement concerning cellulose plants. Argentine has aligned itself with neighbouring Brazil, and has continued to do so also after the nationalization of the Bolivian gas company, where Argentine Repsol has large investments. This position is likely to continue.

### **Bolivia**

The current situation in Bolivia is marked by the nationalization of the natural gas industry, which was announced on May 1<sup>st</sup>. Under the terms of Decree 28701, the Bolivian government has declared absolute control over the country's energy resources, thus changing the conditions of its relationship with international energy companies. Although this measure had already been announced during the MAS electoral campaign in 2005, the news caught both observers and companies by surprise, while receiving ample support from social movements and popular sectors. It remains to be seen if the fulfilment of this electoral promise will help dissipate other pending issues from the political agenda.

### **Actors**

The current administration is led by *Evo Morales*, from **MAS – Movimiento al Socialismo**, a political front composed of several social movements and popular organizations, including indigenous movements, grassroots organizations (including women's groups), and coca-farmers. MAS won the presidential elections in 2005 with



53,7% of popular support, while getting 72 out of 130 seats in the Chamber of Deputies, and 12 out of 27 seats in the Chamber of Senators. The second largest political party in Bolivia is PODEMOS (Poder Democrático y Social), which obtained 28,6% of the vote. The other two parties represented in the national congress are UN (Frente de Unidad Nacional) and MNR (Movimiento Nacionalista Revolucionario), with a few seats each. MAS identifies itself as the authentic representatives of the indigenous peoples, peasants and workers. Indeed, electoral support testifies to this broad representation. The inclusion of middle class intellectuals and professionals in the government also signal a significant level of support among these groups. Voter turn-out in the last presidential elections was high, reaching 85% of the total number of eligible voters.

Popular support for MAS has its background in a process of increasing political awareness and organization since the early 1990s among the poor and indigenous Bolivian population, who constitute the majority of the population (62% of total population, the most predominantly groups being the Quechua and Aymara)<sup>2</sup>. In Bolivia, poverty presents serious challenges, particularly among the indigenous population. 60% of the total population live under the national poverty line; most of these are indigenous. The 500 years of resistance celebration provided a framework for the formulation of popular demands, grievances and alternatives in terms of ethnic and cultural identity, destitution, and the need for the restitution of the state based on “naciones y pueblos originarios” (indigenous peoples). This led in 1995 to the organization of the *Asamblea por la Soberanía de los Pueblos* (ASP – Assembly for People’s Sovereignty), which established the need to work towards a “political instrument” to enter the arena of (electoral) politics. MAS considers itself to be this political instrument. This view however, is contested by particular sectors of the social and popular movement, some of which are highly critical of the MAS government.

**COB** (Central Obrera Boliviana) is one of the contesting forces. COB is the main trade union federation in Bolivia. It was founded in 1952 following the national revolution that brought the Revolutionary Nationalist Movement to power. COB encompasses a number of organisations, some of which are supportive of the new government (such as coca-producers CFTC, *Coordinadora de Federaciones del Trópico de Chapare*, President Morales own organization). Others include FSTMB (Union Federation of Bolivian Mine Workers) and CSUTCB (Confederación Sindical Unica de Trabajadores Campesinos de Bolivia), the latter representing peasant and indigenous communities. CSUTCB is also critical of MAS, challenging its position as “political instrument” of the ASP. COB played a significant role in the series of demonstrations that brought down President Carlos Mesa in 2005, yet it opposed the elections of December 2005, calling instead for a constitutional assembly if real structural changes in Bolivia were to be achieved. COB and CSUTCB

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<sup>2</sup> Hall and Patrinos (2005).

leaders have gone as far as denouncing Evo Morales (and MAS) for betraying the popular cause and being a “reformist”.

The popular sector in Bolivia cannot be considered as homogenous, in spite of the success in rallying support for MAS in the past elections. The indigenous movement includes a variety of groups with different views on dialogue and compromise, and different visions of what the Bolivian state and society should be. It is difficult to assess the influence of more radical actors upon public opinion. Yet the need to maintain a position of leadership in the popular sector is being taken very seriously by the current government (see next section).

The **Santa Cruz Civic Committee** (Comité Cívico de Santa Cruz) is a group of private sector entrepreneurs calling for the need of regional autonomy to secure the welfare of the Santa Cruz population. This region is considered as the economic centre of the country, contributing with almost half of tax revenues for the state budget. According to the committee, the richness of Santa Cruz subsidizes the rest of the country. The committee demands a national referendum for regional autonomy, and counts with ample support in the region, as demonstrated through mobilizations and strikes. Critics of the civic committee identify its members as representatives of power-holders and transnational corporations.

### **Issues & Dynamics**

The issue dominating Bolivian politics today is the management of natural resources, particularly natural gas. The contested character of this issue led to almost continuous popular demonstrations and unrest since 2003, and the fall of two presidents, Sánchez de Lozada and Mesa. Previously, in 2001, social unrest derived from what is known as “the water war” in the Cochabamba region. During the electoral campaign, MAS formulated its position on natural resources in terms of national sovereignty: the Bolivian state had the right to regain sovereign control over its natural resources for the benefit of the entire population. This discourse proved powerful and inclusive, as it announced the redistribution of resources among all, particularly the poor and marginalised.

Elections for a constitutional assembly are scheduled for July 2006. The need for a new constitution was one of the main issues raised by MAS during its presidential election campaign. This has been a long awaited demand from the popular sectors. The outcome of these elections, as well as the orientation of the assembly itself will depend much on the MAS performance and perceived willingness for change, particularly regarding natural gas, but also other issues such as collective rights of indigenous groups, coca-cultivation and international trade agreements. Bolivia is the second largest producer of coca-leaf, which besides being used for traditional purposes and local consumption by the indigenous population, it is also the main input for cocaine. Recent attempts by the Bolivian

government to remove the coca plant from the international list of illegal substances failed. Eradication programs have been put on hold, but definite measures are yet to be taken.

As mentioned earlier, MAS has a broad front of support among the popular sector, but it also has critics. The need to counteract its critics, both from within popular organizations and from opposition parties in Congress, as well as to secure popular support for implemented policies and reforms has led the government to establish in April 2006 an umbrella organization or front called “Estado Mayor del Pueblo” (People’s Chief Staff) as a body “to defend and support the government of Evo Morales”. The front is led by MAS peasant leader Román Loayza. The new front is going to have a nation-wide structure through “local committees in defence of democracy”, in order to mobilize local support for government reforms. Given the contested nature of the reforms envisaged by the MAS government, this support will be essential to legitimate state action. However COB, among others, has accused the government of trying to split the popular sector by creating parallel organizations co-opted by the State. It should be noted that the “Estado Mayor” bears some resemblances to the “Misiones” established by President Hugo Chávez in Venezuela to rally support for his reforms. It remains to be seen in how the Estado Mayor will actually relate to well established social and popular movements in Bolivia.

### **Natural Resources**

As it was mentioned earlier, natural gas is the main issue within Bolivian politics today. Even though President **Morales** also mentioned the future take-over of other national resources, these will play a minor role in economic policy – with the possible exemption of mining. In the case of oil, for example, production is lower than national consumption, and imports would still be needed (and promised at a subsidized rate by Chávez recently).

The extraction of natural gas on a mayor scale is a relative new phenomenon in Bolivia. A gas pipeline to Southern Brazil first opened in 1999 after heavy investments of USD 2.5 billion by foreign companies. The private sector’s growing interest in the energy sector was initiated during the implementation of the structural adjustment program, through the induced deregulation of the sector, leading to the dismantling of the state company *Yacimientos Petrolíferos Fiscales de Bolivia* (YPFB). YPFB was transformed into private companies **Andina** and **Chaco**. Foreign companies were invited to invest in the country and Spanish **Repsol**, **British Gas** and the Brazilian state company **Petrobras** became the most active companies in Bolivian energy sector. The country has the second largest gas reserves in South America (see table 3), a favourable position for exports, and what was regarded as a “legal framework favourable for investments” (WB 2005). When the gas started to flow out of the country and further plans of export to USA were made public, popular discontent rose. A large sector of the population felt that they were not getting their share of gas incomes. The state tax income was too small to make any difference in redistribution, only USD 200 million in 2002 according to the World Bank (2005). The fixed distribution keys meant that the producing lowland departments of **Santa Cruz** and

**Tarija** got what to others seemed like an unfairly high share of the rents in addition to the benefit of the activity itself. Plans by former President **Mesa** to start exporting gas cheaply to USA, and even using the ports of their arch rival Chile, was just the final drop that leads to large scale popular revolt against the president. He introduced a new petroleum law which was subject to and approved by a national referendum last year. Among other things, the new law increased the net tax rate from 18 to 50 %.

Nationalisation of the energy sector soon became the cornerstone of the MAS election campaign last year. Morales signalled that contracts with private companies would be renegotiated in order to increase the share of the state rents as soon as he became president. Yet when he actually proclaimed nationalisation on May 1 this year, it came as surprise to most. He probably had to move fast of two reasons: (i) he had created expectations of a policy change which meant companies had put all investments on hold until the new terms were know; and (ii) other actors like the political leadership in Santa Cruz were preparing for countermoves as the date for the constitutional assembly elections is approaching.

The proclaimed “nationalisation” is clear at two points (i) The state, represented by the state owned company YPFB, will take over 51% of the share in all private companies active in production, transport and distributions. (ii) These mixed companies must pay 82 % tax on their net results, i.e. a further increase from the 50 % set in the last petroleum law (itself an increase from 18 % previously) in the interim period until the renegotiation of contracts. This reduces the share of profits left for foreign and private national companies to cover previous investments, considered as sunk costs. Further investments are hence not expected in the present conditions. However, this can be seen as a starting point in the negotiations where the government is probably willing to yield enough to make it profitable for the foreign companies to invest in this sector. In the short term this policy change is expected to increase the annual tax revenues from the natural gas sector from about USD 400 to 750 mill. a year since immediate volumes effects is not expected.<sup>3</sup>

Purchasing countries might look for other sources if the Bolivian government pressures too much. Brazil possesses large amounts of gas in the Amazon, which is only marginally more distant in transportation, and hence marginally more costly, when it comes to new green-field investments. They have also discovered a mayor deposit in the sea just outside Sao Paulo, but heavy investments in the deep sea has made Petrobras put the plans on hold for now. Chile is today buying Bolivian gas transported though Argentinean pipelines, who suddenly did not let the agreed quantities pass by due to their own increasing needs for imports. With the recent Bolivian hostilities in mind too, Chile has hence speeded up the planning of their liquefied natural gas (LNG) terminal where they intend to use gas from the Middle East on long term contracts. This would have a negative impact on the profitability of a direct pipeline from Bolivia to Chile in the future. On the other side, the

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<sup>3</sup> The Economist, May 4th, 2006.

state takeover of all gas sales has increased Bolivia's negotiating power, especially if joining forces with Venezuela to become a *de facto* gas energy cartel in the region, able to negotiate directly with the consumer countries. President Morales also announced that YPFB will become an operating producer. Whether it will also keep its function as a regulator, and profit distributor in the same way as PDVSA of Venezuela, is still unknown. Policy changes in this regard will probably take place parallel to the process of contract renegotiation.

In the event that multinational companies withdraw from Bolivia, and YPFB could not operate without their expertise, the Bolivian government might be forced to give considerable concessions in the renegotiation rounds. It is vital that such processes occur in a transparent and open manner, in order to avoid the prolongation of the existing system, which tends to spur corruption and mismanagement. A reform process of the gas sector will have to deal with these problems seriously.

In Bolivia, mining has dominated the economy throughout the country's history. Today, it accounts for 80 % of exports. Gold is the most important commodity, with annual exports of USD119 million. However, this country did not take the leap from more traditional mining to what is called "new-mining" during the structural adjustment of the 1990's, i.e. large scale, capital intensive new technology mines and quarries operations by the multinationals. The surprisingly generous conditions for mining in the neighbouring countries were probably a deliberate choice in the competition among Latin American countries to attract the multinational corporations, a competition where Bolivia lost out.<sup>4</sup> The annual export value dropped from about USD 800 mill annually in the early 1980's to stabilizing at around 400 mill. USD due to the low investment level, not surpassing 100 mill USD in any year according to Enriquez (2002).

## **Trends**

Bolivia is undergoing a process of political change which enjoys legitimacy among large sectors of the population. The comprehensiveness of the reforms at hand (gas, water and forest resources, national constitution) will require strong support from popular constituencies in order to face the opposition, both in congress and in civil society. The government faces the challenges posed to those popular movements with broad experience from opposition, but little from actual policy-making and implementation. The government is "securing its trenches", so to say, among the popular sector and internationally. The struggle will take place not only in actions, but also through the discourse and the many intentions being assigned to contending parties. The flow of information – and propaganda – will play an important role in the times to come. It will be necessary to monitor

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<sup>4</sup> Chile was ranked to be the sixth most attractive regions for mining investments in the world after five states in USA/Canada, while the copper mines in Chile and Argentina were the lowest tax rates in the world in 1996, followed by other Latin American countries, as referred to in IIES (2002).

developments closely, particularly about the re-directions of public opinion and the positioning of influential trade unions and indigenous organisations.

*Bolivia in the region.* Bolivia is now positioning itself along with Venezuela. In April 29, Venezuela, Bolivia and Cuba signed the *Tratado de Comercio de los Pueblos* (TCP; People's Trade Agreement), an alternative to the Free Trade Agreements (FTAs) negotiated between Colombia, Ecuador and Peru with USA. The signature of TCP followed shortly after Venezuela withdrew its membership from CAN (*Comunidad Andina de Naciones*; Andean Community of Nations). Evo Morales' explicit support to Hugo Chávez' leadership in Latin America contributes to a realignment of forces at the regional level.

## **Brazil**

The political and socio-economic situation in Brazil today is marked by a debate on the achievements and limitations of the current administration, as congressional and presidential elections are fast approaching (October 2006). The main question is whether President Lula be re-elected and if so, under what conditions. The expectations raised by his presidency have not been completely satisfied, particularly in relation to land reform and social issues. Corruption scandals within the government party last year cast a shadow over the good intentions – and practices – of Lula's government. Is this to be understood more as a symptom of weak democratic institutions, or just another case of private greed and the abuse of power? Voter's answer to this question might determine whether the president will have the chance to continue his reform program in a second term.

### **Actors**

Current Brazilian President **Luiz Inácio Lula da Silva** was elected in 2002, with more than 60% of the vote on the second round of elections. Popularly known as "Lula", he was first a union leader from the metal sector in the 1970s, and became later co-founder of the left-wing) in the early 1980s. According to observers, PT has moved throughout the years from being a traditional socialist to a modern social democrat party. After losing three presidential elections, Lula toned down leftist policies and discourse in the 2002 elections, moving PT towards centre. This has involved a more pragmatic approach to economic and social policies, one that has an active place for market and private sector involvement in the country's development.

The government's main opposition party is the **Brazilian Social Democracy Party** (PSDB), whose presidential candidate for the upcoming elections is **Geraldo Alckmin**, current governor of the State of São Paulo. This party's strength lays in having previous government experience, as it ruled Brazil for eight years under the presidency of Fernando Henrique Cardoso. Another large opposition party is the Liberal Front Party (PFL), which

entered into coalition governments with PSDB in the 1990s. The Party of the Brazilian Democratic Movement (*Partido do Movimento Democrático Brasileiro*, PMDB) is largely a centrist party with no clearly established ideology, including a range of liberals as well as the former guerrilla movement MR-8. The party is dominated by local and regional leaders, and became the third largest party in Brazil at the 2002 elections. It is worth noting that the Brazilian party system is still fragile, posing several challenges to the institutionalization of democratic practices. Congressional representatives can change from one party to the other easily, showing often more loyalty to their economic power base than to political parties. “Caciquism” and clientelistic practices are still very common.

There are numerous popular organizations, trade unions and social movements in Brazil, formulating a wide range of demands and causes, from indigenous people’s rights to environmental issues, community services to popular participation. Among the most important actors is the *Central Única dos Trabalhadores* (CUT - United Workers Central), the largest national trade union in Brazil, which organizes and represents the interests of workers from in the public and private sectors, in active service as well as retired, from urban and rural settings. CUT was founded in 1983, and works for the protection of labour rights, better living and working conditions, and the transformation of Brazil towards democracy and socialism. 3326 labour organizations are affiliated to CUT, constituting over 7 million associated workers and over 22 million members. CUT has been an important source of popular support for the PT government, yet it has chosen to maintain its autonomy in order to continue fighting for the rights of working people when the government is pressed to compromise.

The *Movimento dos Trabalhadores Rurais Sem terra* (MST – Movement for Landless Rural Workers) is a significant political actor due to the size of its constituency (approximately 1.5 million members in 23 out of 27 states), and the political character of its demand – land reform. MST has close affinity to PT, and has usually supported the party in political campaigns; the movement played a vital role in Lula’s election in 2002. In return, MST expected government action regarding land reform and the redistribution of land among landless peasants. MST leadership has expressed dissatisfaction with the government’s performance in this issue, declaring that it will continue its role as social movement, organizing the poor in the countryside in their struggle for agrarian reform.

The **Catholic Church** plays an important role in Brazil, in religious, social and cultural terms. Approximately 2/3 of the population consider themselves Catholics. The 2nd Vatican Council (1962-65) had a strong impact in Brazil. The Liberation Theology which developed soon after the Council, brought forward different political perspectives. Catholic “community bases” constituted a network or social movement which moved the church towards the left, mobilizing for political and social purposes. The Bishop’s Conference engaged itself also in social issues, human rights and land reform. In the 1980s, the left-oriented groups of the Catholic Church found themselves on the defensive. Today

community bases are many, but less than before. Pressure from the Vatican has increased; radical bishops have been moved to more peripheral parishes, while conservative bishops have taken the lead. Charismatic groups within the church developed in opposition to liberation theology, with the Vatican's approval.

The Catholic Bishop's Conference still represents a critical voice in social issues, gathering a variety of social movements in their annual march against poverty (Grito dos Excluidos). The *Comissao Pastoral de Terra* (CPT – Pastoral Commission on Land) is part of the Catholic Church's left actively working with land laborers and poor peasants on the issue of land reform. CPT played a vital role in the formation of MST. Leftist Catholics are active in the political debate, many of them also members of PT. A few have received sanctions from the Vatican or their congregation due to their political engagement. Other religions active in Brazil include Candomble (Afro), Umbanda, and Espirita. Christian evangelical churches are also present.

**Women's movements** in Brazil have developed since the 1980s, when a National Council on Women's Rights (Conselho Nacional de Direitos da Mulher) was created. Originally, the feminist movement was closely connected to human rights movements and resistance to the military regime. In the 1980s and 1990s, attention shifted to violence against women, especially domestic violence and sexual abuse and harassment. One original response to this kind of problem was the creation of special police stations for women. Women's movements also mobilized support for reproductive health and rights. Most recent issues include HIV/Aids, gun control and urban violence, and the situation of poor, black women.

### **Issues & Dynamics**

During the 2002 presidential campaign, President Lula declared himself in favour of an economic policy that would go along a similar path as the one initiated by the previous government. Former President Cardoso had introduced a number of economic reforms in the 1990s, giving priority to privatisation and the opening up of national markets. Brazil had achieved economic stabilization, and Lula's PT knew that the arrival of a leftist government could cause fear among investors, with a negative impact upon the economy. Inequality would thus be primarily approached through social sector policy. Once in office, Lula first ensured the stabilization of the economy, and later introduced a pension reform (mainly to reduce a large deficit), and a modest increase in the minimum wage. Little progress has been made in agrarian reform. Through sound macroeconomic policy policies, the Brazilian economy experienced economic growth in 2004 (4.9%), the highest growth rate in ten years. Government policies have been the key element for restoring credibility. In 2005, for the first time in three decades, Brazil is experienced an external and fiscal equilibrium and low inflation. Relatively low economic growth remains a persistent concern (World Bank 2005).



With such a large and dynamic market however, the main challenge is not necessarily growth, but unemployment and extreme poverty; ultimately, the extremely uneven distribution of wealth in Brazil. Nearly a quarter of its population (totalling 183 million people) live on one dollar a day. Poverty is concentrated in the North East where around 60% of the country's poor live; ethnic minorities such as indigenous and afro-descendent groups are especially affected by inequalities in living standards and opportunities (DFID 2004). Poverty is also widespread in urban areas, where thousands of people live in *favelas*, slum areas in the outskirts of major cities. An additional problem in the urban setting is high levels of crime and violence; in many of these areas, the state is unable to provide any form of security for its citizens.

The challenge posed by extreme poverty and inequality has been met by the PT government through a comprehensive social development strategy known as **Fome Zero** (Zero Hunger). Fome Zero aims to guarantee the right to food of the poorest sectors of the population, focusing on food security as a way to combat extreme poverty. Fome Zero is an inter-ministerial effort, and includes 31 different and complementary programs, organised along four programmatic areas. **Bolsa Família** (Family Grants Program) is one of the main instruments of Fome Zero; it provides cash transfers to poor families in exchange for their compliance with certain education and health actions. Families are responsible for sending their children to school and for following pre-natal and child health care programs. Poor women and children are the main target beneficiaries. Bolsa Família is now the largest "Conditional Cash Transfer" program in the developing world, reaching about 8 million families (seven out of 10 poor families). The program's goal is to reach all families currently living under the poverty line by the end of 2006. The program seems to be successful, to judge from the number of families reached and the interest there has been among beneficiaries. Yet it has been limited to some extent by under-funding and clientelistic practices. Results from the program's evaluation, which is taking place this year, will be very useful for the implementation of similar initiatives in other developing countries.

The issue of land distribution is highly controversial in Brazil, where 1% of the landowners control roughly 50% of arable land. According to the Brazilian Constitution of 1988, "land should be used for the benefit of all society". Based on this statement, MST has carried out an ad-hoc land reform since 1984 through sit-ins and land occupations of unoccupied/unproductive land. By 2003, MST had secured land for 350,000 families. In 2006, 250,000 families still live in encampments awaiting the government's recognition. MST also provides a wide range of services in its 1600 government recognized settlements, such as schools, farming cooperatives, health posts and literacy programs.

In spite of the relative success MST has shown through years of struggle, their efforts reach only part of a problem affecting millions of landless peasants in Brazil. According to a recent report (COHA 2006), President Lula pledged to give land to 400,000 families, and

allow 500,000 squatters to acquire formal titles to the land on which they live. Although the government reports that 235,000 families have been given land, MST is disappointed with the limited progress being made, and has announced early this year record land occupations as part of its “days of struggle”. In their view, the PT electoral victory has not been enough to secure significant changes in the agrarian sector. Accordingly, MST will continue to promote social struggle leading towards the formation of an agrarian model that gives priority to food production and land distribution. The current MST campaign declares the movement as an “anti-neoliberal, anti-imperialist, popular and national project.” What this actually means in terms of the upcoming elections remain to be seen.

### **Natural Resources**

A considerable part of the world’s natural resources is found in Brazil. The Amazonian rainforest constitutes the largest remaining tropical forest in the world. It covers 5 % of the world's land and it is thought to be the most diverse ecosystem on Earth, playing a vital role in keeping the world's climate stable. This rainforest is home to nearly 10 % of the world's mammals and a staggering 15 % of the world's known land-based pant species, with as many as 300 species of tree in a single hectare. The Amazon in Brazil alone is also home to more than 20 million people, including an estimated 220,000 people from 180 different indigenous nations, who rely on the forest for their way of life. All this is threatened by deforestation fuelled by a demand for cheap supplies of plywood and tropical timber locally and abroad or the agricultural invasion to grow commodities such as soy mainly used to feed animal in European countries. Between 60 and 80 % of all logging in the Brazilian Amazon is estimated to be illegal and more than one million hectares within the Amazon rainforests are already being use to grow soy.

The Brazilian economy constitutes about half the GDP of the region, a fact that has led to an energy consumption nearly three times as large as its industrialised neighbour Argentina or energy producer Venezuela (Table 6). Brazil has become self-sufficient in oil, and has now discovered extensive gas fields offshore in the **Santos Basin** just outside Sao Paulo, with 420 bill. m<sup>3</sup> in reserves. It will take between 6-10 years and USD 2.5 bill to develop the project, but the profitability is probably positive; technical complexity could be compensated by the short transport distance to the main consumption centres. In addition, there are several potential gas fields inland in the Amazon basin, but the long transport distance has until now implied prohibitive costs. The Bolivian fields are actually closer; this is why Brazil has preferred to invest in the pipeline from Sao Paulo to Santa Cruz in Bolivia. However, domestic demand has actually been lower than expected; this implies that Brazil has actually paid for unused quantities in the “take-or-pay” contracts with Bolivia (Fagundes 2004). The decision whether to exploit own resources or import will hence depend on both the financial profitability and the political risk that contracts might be broken.

The state (owned) company **Petrobras** is still the main player in the Brazilian energy market. It enjoyed a monopoly position until the new competition law was introduced in 1997 which opened for both private and foreign companies to enter at most stages in the production and marketing process. The National Petroleum Agency was simultaneously created to take care of the state regulation function of the petroleum industry which was hence separated from the production set. The legal framework for the petroleum business resembles in this way the Norwegian system. However, due to the leading position of the state company in most parts of the production and distribution chain, competition is restricted and foreign companies are still reluctant to join in with large scale investments. Compared to the size of the Brazilian economy, the petroleum sector constitutes less than 3 % of the GDP, while the mining sector's share is less than half a percent. Fortunately, Brazil is not dependant on natural resources as a source of tax income. The country is actually able to collect a considerable amount of normal sales and income taxes, with total taxation constituting about 35 % of GDP.

### **Trends**

The corruption scandals of 2005 have certainly deteriorated the image of both PT leadership and the president, in spite the fact that no direct link to the presidency has been found. Top PT leaders close to the president renounced their positions following a series of investigations. One of PT's campaign issues has been the fight against corruption. The fact that bribery was used to secure votes to pass government policies in congress does not make matters easier. Paradoxically, corruption was an accepted tool as long as it was used for "good" causes. This case clearly demonstrated the fragility of democratic institutions and the implicit disrespect for democracy in Brazil – even with a popularly supported leftist party in government.

Opinion polls show an improvement in the president's popularity in the past months, also among the poorest sectors of the population. If this trend continues, President Lula's re-election is the most likely scenario, giving him the opportunity to expand the governments social and welfare programs. The widespread legitimacy that the land reform issue enjoys among the Brazilian public places MST in an important position regarding re-election. A re-vamping of the land issue can be expected in the upcoming electoral campaign.

*Brazil in the region.* Brazil occupies a position of leadership in the region, both in economic and political terms; furthermore, the country has the most professional foreign service in Latin America. Brazil has strengthened economic ties with Venezuela in the past years, signalling a need not to isolate the Chávez regime. Brazil is perceived in the region as keeping the balance between other more vocal administrations. This was put to a test in the recent meeting between the presidents of Argentina, Bolivia, Brazil and Venezuela to solve issues concerning the nationalization of the gas industry in Bolivia. In the event of further radicalization or polarization within the region, Brazil is likely to reinforce its leadership by assuming a mediator/conciliator role – possibly for everybody's relief. At the

same time, Brazil is assuming a position of leadership at the global level, promoting a social and economic agenda for the developing world.

## **Chile**

Chile can be considered as one of the most stable countries in South America, both in economic and political terms. Economic growth has been present for the last decades, and since the return to democracy in 1990, the government has been led by centre-left coalition “Concertación”, which has been elected to office four consecutive times. The last general elections took place in December 2005; in a second-round last January, Chile elected its first female president, Michelle Bachelet. Also for the first time (since 1990) the president has majority in both the Senate and the Chamber of Deputies.

### **Actors**

The last electoral process was led by two multi-party coalitions, popularly known as “**Concertación**” and “**Alianza**”. The former, *Concertación de Partidos por la Democracia* gathers four centre-left parties, the most prominent one being the Christian Democrat Party. President Bachelet herself belongs to the Socialist Party. The latter, “Alianza por Chile” gathers right-wing parties “*Renovación Nacional*” and “*Unidad Demócrata Independiente*”; the presidential candidate and leader of RN was industrialist Sebastián Pinera. The fact that Concertación won the elections with only 53% in the second round, indicates the opposition counts with considerable support among voters.

In spite of the centre-left orientation, Concertación governments have promoted a liberal export-oriented economy. President Bachelet is likely to continue on the same track. The president took office announcing 36 policies to be implemented within the first 100 days of her administration. She has declared that fighting poverty and reducing income inequality are to be the highest priorities of her administration. About 18% of Chile’s population still live under the national poverty line, particularly in the southern provinces.

Civil society in Chile is well organized, particularly among the business community and human rights organizations. Trade unions, however, are considered to be less influential today than during the mobilisations against dictatorship in the 1980s. The participation of women in public affairs has increased in later years, particularly in the human rights agenda. Although two of the main presidential candidates in the last elections were women, political participation in the Senate and the Chamber of Deputies is more modest (even below the regional average, which is 18%).

### **Issues/dynamics**

Chilean politics are dominated by well defined political parties that often form electoral coalitions to participate in electoral processes. The Constitution of 1989 made the electoral

system binominal, which makes it difficult for any party to establish majority in congress. According to some observers, this has encouraged the need for seeking consensus and political cooperation between parties, and also between government and opposition. However, changes in the electoral system have been demanded from many fronts, and it is likely to undergo reform in the current administration.

Human rights are still much present in the social and political agenda in Chile. Thirty years after the coup of General Pinochet, and the most brutal military dictatorship in Latin American history was initiated, the country is still coming to terms with its violent past. The thirty year anniversary of the coup in 2003 saw broad mobilization among human rights and victims organizations, making sure that the plight of the victims would not go into oblivion. The human rights movement in Chile is constituted by multiple organizations which have succeeded, step by step, in seeking justice for perpetrators of human rights violations – including General Pinochet himself. Legal processes against former military personnel have increased, and a comprehensive program of victim reparations has been established. While measures taken immediately after the transition to democracy were modest and cautious, in the long run the political will of Chilean governments to support the human rights agenda in issues of transitional justice is a good example for other countries in the region.

The polarizing effect of the former dictator in Chilean society has been reduced in the last few years, partly influenced by the disclosure of secret bank accounts belonging to Pinochet and his family. The main reason however, lays in the consolidation of democratic rule in the country, which has gone hand in hand with processes of reform to establish the subordination of armed forces to civilian rule, and to establish the rule of law. In spite of these positive developments, the situation is overshadowed by the marginalization and extreme poverty experienced by the Mapuche indigenous people in the southern regions. It is worth noting that Chile is one of the few countries in the region that has not ratified the ILO Convention 169. Local Mapuche leaders have been imprisoned for their “subversive” activity under the current “anti-terrorist” legislation. Military forces have also been used to control demonstrations against damn construction and eucalyptus plantations. The challenge for the new government will be on how to make democracy and economic development more inclusive, also for the indigenous population. The creation of Regional Agencies for Productive Development in each region of the country can be a step in this direction.

### **Natural resources**

Chile is the most market friendly and prosperous country in Latin America when it comes to GDP per capita (Table 1). However, short of gas and oil, their current hydroelectric production is considerable, constituting 19% of national consumption today (Table 5). The rest is imported, and natural gas coming through Argentina probably represents about 29 % of primary energy consumption. This dependency makes the Chilean economy vulnerable

for their historical rival's changing moods. The sudden cut in supply as a result of the Kirchner doctrine of low fixed utility prices at home has been an expensive lesson for the Chileans. Even though South America is packed with natural gas, both accessible through pipelines and as LNG on ships, Chile is now seriously considering long term contracts for LNG supply from producers in the Middle East due to their perception of political instability in their home region.

Situated in the Andes mountain range, extraction of minerals represents an important sector for the Chilean economy. Today this sector represents about 8.5 % of GDP (mostly copper) and the size of the sector is about three times as high as in 1990, constituting 40 % of total exports. The increase is due to heavy investments by multi-national companies. A de facto tax brake was introduced; companies did not have to pay income tax before all investment costs were recovered in contrast to the depreciation of fixed capital system (which is normally applied). This incentive aimed to attract foreign investment to the country when the mineral prices were low in the 1990's. It has been claimed that the Chilean state just received USD 20 mill in sales taxes out of a total sales of USD 4.4 billion in the sector. As prices have increased in later years, such low share seems even more unreasonable. The Lagos government tried to impose a 3 % sales tax revenue on the mining sector in 2004 with the special purpose of financing research; this has not been implemented yet. The state-owned **Codelco** mining company is still a major player in the sector, and there is a debate about whether privatisation is desirable or not. The state company contributes about USD 1 bill to the state budget annually, while taxes from private activity lag far beyond.

Fisheries too are an important part of the economy with 1.5 % of GDP. However, taxation is low even though a large proportion of the catch is taken by foreign concessionaries.

### **Trends**

Chile represents an element of stability in the region. Without divisive issues to solve at the home front, Chile is well placed to play a neutralising and stabilising role in a region. This will be very useful, particularly as different countries become more entrenched in their positions regarding economic integration and international trade. This calmness however, may not apply in dealing with Peru and Bolivia over issues of territorial sovereignty.

*Chile in the region.* In spite of its economic stability and growth, Chilean governments have kept a relatively low profile in the regional political scene, while playing a more active role at the international level. Chile has been consistent in promoting “un regionalismo abierto”, open regional integration – that is, regional cooperation among open economies. Thus Chile is an associated member of Mercosur, and has a bilateral trade agreement with USA. The Chilean economy is not only export-based, but highly diversified and has also expanded through investment in neighbouring countries, particularly Peru. The possibility of Bolivia to export its gas resources through Chile is still

an open issue, so for Chile, a good relationship to its northern neighbours is very important. Bolivian claims for access to the Pacific, the delimitation of sea borders with Peru, and the pending extradition of former President Fujimori to Peru have strained diplomatic relations in the past years. In the aftermath of Bolivian nationalization of energy resources, the Chilean position is to call for calmness and dialogue, in order to avoid a further deterioration of regional cooperation.

Beyond the South American region, Chile was successful in promoting its candidate for Secretary General of the Organization of American States (OAS), José Miguel Insulza, who was elected last year. Previously, in 2004, Chilean Ambassador Juan Gabriel Valdés was appointed Secretary General of the United Nations Stabilisation Mission in Haiti. Chile also been the leading country in promoting the formulation and approval of the “Basic Principles and Guidelines on the Right to a Remedy and Reparation for Victims of Gross Violations of International Human Rights Law and Serious Violations of International Humanitarian Law”, which was approved by the UN General Assembly in December 2005.

## **Colombia**

The current political situation in Colombia is marked by the recent congressional and the upcoming presidential elections. The electoral process takes place on the background of the continuous internal armed conflict, which in the present context heavily affects the public agenda.

### **Actors**

Traditionally, Colombia has been a two-party system with government changing hands between the traditional Conservative and Liberal Parties, which guaranteed – with some exceptions – the continuation of an uneven distribution of wealth and resources in the country. As the electoral system was changed with the Constitution of 1991, the possibility for the formation of new parties and coalitions opened. Current President **Alvaro Uribe** is the candidate for a right-wing coalition known as **Colombia Primero** (Colombia First), composed by five political parties (*Partido de la U*, *Partido Conservador*, *Cambio Radical*, *Alas Equipo Colombia*, and *Colombia Democrática*). The coalition obtained ample majority in both the Senate and the Chamber of Representatives during congressional elections last March. This means that, if reelected in May, President Uribe will not have to confront an unwilling congress to implement his political reforms and policies, some of which are highly controversial.

Since elected in 2002, Uribe has put much effort in implementing his “Democratic Security” policy as “a way to move forwards to democratic consolidation in Colombia”. The government praises itself for allowing political opposition actors to mobilize (such as

trade unions or the democratic left). In the economic front, Uribe has favoured an open liberal economy and has negotiated a free trade agreement with USA together with Peru and Ecuador. However, the democratic security policy has been heavily criticized not only by the opposition but also by international organisations, human rights and civil society organizations for using the “fight against terrorism” to undermine civil liberties and the rule of law in Colombia even further.

In relation to the guerrilla groups active in the internal armed conflict, Uribe has one clear message: “Peace is born from the transparent, firm, efficient and constant exercise of authority”. The government had no doubts to use military force to impose the authority of the state upon what Uribe increasingly defines as “terrorist groups”, the FARC and ELN guerrillas (see below). The government obviously seeks a solution to the armed conflict on the basis of a military defeat over the guerrillas. Accordingly, only from a position of defeat will the guerrillas be willing to negotiate peace.

The government’s opposition in Congress is represented by members of the traditional *Partido Liberal* (Liberal Party), and the newer democratic left party called *Polo Democrático Alternativo* (PDA; Alternative Democratic Pole). The influence of the Liberal Party, whose presidential candidate is Horacio Serna, has been diminishing in the last decades. A different situation occurs with PDA, which represents a novel development in Colombian politics: the formation of a political and democratic oppositional left. PDA’s presidential candidate is **Carlos Gaviria**, former president of the Constitutional Court and Senator. PDA proposes to work for the establishment of a “Estado Social de Derecho”, or Social Rule of Law, as the only alternative to the historical crisis Colombia now lives. Although at the national level PDA is still to attract supporters, the capital Bogotá is a major PDA stronghold. In the 2003 municipal elections, PDA’s candidate Luis Eduardo Garzón was elected mayor of Bogotá in what has been described as the biggest electoral victory ever for the democratic left. Garzón obtained 46% of the vote. In Colombia the left has often been associated to guerrilla groups; the new democratic left proposed by PDA denounces armed struggle while endorsing a democratic and rights-based ideology.

### **The internal armed conflict: armed actors**

The current internal armed conflict in Colombia goes back to the 1960-70s, to the formation of several leftist guerrilla groups, who turned to armed struggle in opposition to the two-party system dominated by powerful elites. Two guerrilla groups dominate the political-military scene today; *Fuerzas Armadas Revolucionarias de Colombia* (FARC) and *Ejército de Liberación Nacional* (ELN).

FARC is the largest one, and controls extensive areas of the country. In 1998 conservative President Andrés Pastrana demilitarized a separate territory in the south-east of the country in order to initiate peace talks with FARC. Negotiations showed little progress, and the government broke peace talks in 2002, ordering FARC to leave the area. FARC guerrillas



have been targeted by paramilitary forces since the early 1990s, and currently face up to strong military pressure by government forces. FARC guerrillas have been increasingly involved in drugs dealing since the 1990s, as a way to fund their armed struggle. Extortion and kidnapping have become part of FARC tactics. Some estimates show that FARC has 15-20000 guerrillas.

Although smaller in numbers (up to 5000 guerrillas), ELN had strong impact for their strategic targeting of infrastructure and hijacking operations. The group entered peace talks in 1998, but were ended by the government in 2002. The Uribe administration is currently exploring the possibility to engage in peace negotiations with ELN.

In addition to the FARC and ELN (which define their struggle as “political”), the Colombian armed conflict has a third actor: para-military forces. These groups originated in the 1980s as private armies or security forces for powerful drug lords and landowners, providing not only personal security but also getting rid of cumbersome enemies – competitors, public authorities, leaders of grassroots organisations, and human rights activists. Their use of brutality, violence and extortion is today well known. In 1997 an umbrella organization was formed, *Autodefensas Unidas de Colombia* (AUC) to coordinate local and regional paramilitary groups. AUC does not have a political agenda, but legitimized its existence and recurrent use of violence by pointing to the weakness of the Colombian state in providing security for its population – particularly from guerrilla groups. President Uribe initiated talks with the paramilitaries for their possible demobilization and reintegration into society in 2004. The process was officially completed in April this year; it is estimated that 30000 paramilitaries have been demobilized across the country. This demobilization however, comes at a very high price.

The internal armed conflict has serious effects upon Colombian civil society. Civilians are continuously exposed to reprisal, forced displacement and the cross-fire between the fighting parties. At the same time, a large number of civil society organisations are actively working to protect the rights of civilians affected by the conflict. Peace and human rights groups in Colombia operate under constant pressure and danger not only by paramilitaries and guerrillas, but also by the own government forces. Other popular organizations such as indigenous and peasant groups also take part of the peace and human rights network in Colombia.

### **Issues & dynamics**

The armed conflict and its consequences regarding the human rights situation and internal displacement are the most pressing issue in Colombia today. Violence and the systematic violation of human rights have been applied by all armed groups involved in the conflict – including government forces. The result is a situation of where the power of fear is imposed upon local populations. Through its “democratic security” policy, the government today boosts the decline of crime rates (homicides and kidnappings) in the country in the

last years, particularly in large cities. Human rights organizations (HROs) salute this, but indicate that the situation in the countryside is still out of control, while new types of human rights violations are on the rise, such as arbitrary arrests. Furthermore, there has been an extraordinary increase in the numbers of internally displaced people (IDPs) in the last five years. According to the UN, there are approximately 3 million IDPs in Colombia today. Similarly, indigenous groups across the country have been strongly affected by the armed conflict, threatening their livelihoods and future survival.

While the government puts the blame for the IDPs crisis solely on guerrilla groups, the arbitrary role of the paramilitaries must not be ignored. HROs report the extensive use of land eviction practices in the countryside, by which paramilitaries force peasants and farmers to leave their property under the threat of death. In this manner, a great number of (today former) paramilitaries have come acquire houses and land – simply by force. The controversial Law of Justice and Peace, approved in 2005 to regulate the demobilization of paramilitaries, includes provisions that recognize land acquitted by illegal means as a form of “reparation” to former “paras”, whenever this contributes to their process of reintegration into civilian society. Furthermore, since in most cases original owners did not have formal property titles, the new owners have formalization processes on their side. This redistribution of property and resources in the Colombian countryside is a perversion of principles of restorative justice and reconciliation.

The armed conflict is unfortunately far from reaching a conclusion. President Uribe initiated in 2004 “Plan Patriota”, a military campaign against FARC guerrillas in the southern part of the country, in what has been described as the largest military operation in modern Colombian history. The government has acknowledged that part of the military campaign against rebel groups is being funded by USA through a military cooperation agreement known as “Plan Colombia”. The aim of Plan Colombia is to fight the war on drugs, by eradication of coca plants and stopping cocaine production; an estimate of 3 billion dollars have been invested for this purpose since 2000. Eradication methods include the use of extensive fumigation, with serious environmental and social consequences.

The above developments contrast with the economic growth experienced in Colombia in the last few years. Consumption, investment and export showed positive results in 2005, something with President Uribe adjudicates to the government security policy. The effect of economic growth upon poverty is still rather limited. According to official figures for 2005, 49% of the total population lived under the national poverty line. This corresponds to 22 million people, of which 6,5 million live in conditions of extreme poverty. Although this implies a reduction of 3% from the previous year, poverty in rural areas increased, from 67,5 % in 2004 to 68,2 % in 2005. In Colombia, poverty is closely linked to the extreme uneven distribution of resources, particularly land; a situation that is worsen by the armed conflict. About 13% of Colombia’s national territory is agricultural land,. Of this area, 45 % is concentrated in the hands of just 0.3 % of the nation's landowners, with more

than 500 hectares each. 20% belongs to 2.3 % of the landowners, with 100 to 500 hectares each, while 35 % of the land is distributed among 97.4 % of Colombian farmers, who have less than 100 hectares each. Smaller farmers and indigenous groups are more exposed to internal displacement and land evictions, thus worsening the problem of land distribution.

### **Natural Resources**

The economy and the extraction of natural resources in this country develop against the background of the internal armed conflict. The ELN guerrilla has specialised in “taxing” oil pipelines, while the FARC guerrilla has specialised in kidnapping and ransom of people involved in the resource extraction business. On the other hand, the paramilitary forces “protect” the companies; payment for their “services” thus becomes a *de facto* “taxation” of these industries.

The extraction of natural resources still plays an important role in the economy. The country is the second most import source of coal in Latin America (Table 4). The gigantic mine of **El Cerrejon** at the Atlantic coast stands for most of the production. Today Colombia covers about 5 % of the world coal exports. Gas production and consumption has doubled in the last decade due to a pro-active governmental policy, and today gas production is close to the Bolivian level (Table 3). Oil is at about 500.000 barrels/ day (Table 2), but declining as existing fields are drying up. The government has changed the legislation to be more flexible in order to attract exploration and investments by multi-national companies. Earlier, international companies had to enter into joint ventures with 50 % of the findings going to the state company **Ecopetrol**. Then a royalty of 20 % of produced volumes had to be paid for the joint venture. Now, the share of findings is reduced to 30 %<sup>5</sup> and the royalty paid to the state from the joint venture is between 8 and 20 % depending on the profitability of the project. The institutional reorganisation of the sector also implied that state control functions are now separated from the production side through the **National Hydrocarbon Agency**. The tax on net company income is 35 %, the same as in other Colombian sectors. Total revenue from oil and gas is USD 1.2 bill. per year (Table 8).

### **Trends**

In the upcoming presidential elections, President Uribe is likely to be re-elected and be given the chance to fulfil what he has initiated. Re-election will mean the continuity and consolidation of the current administration’s policies. Opinion polls show that there is certain optimism among the population concerning the country’s future.

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<sup>5</sup> In the Latin American context, the Colombian arrangement is the one which resembles the Norwegian system the most. The Joint Venture arrangement is close to the SDØE, refunding both exploration costs and investments, but does not give any deduction possibility for failed exploration costs for the multi-national companies as Norway now opens for.

In the recent municipal election only 40% of almost 26 million eligible voters exercised their right to vote. This is well below the Latin American average for electoral participation. This absence cannot be explained by “apathy” only; the limitations to political participation imposed by the armed conflict upon large sectors of the population should also be considered. There is a large proportion of citizens in Colombia who are practically disenfranchised, and whose situation becomes invisible because of their lack of political representation. Civil society organizations, particularly peace and human rights groups, provide a line of access to marginalised groups; and are targeted by armed actors for doing what they do.

The rise of the democratic left in the last decade can be considered as an alternative to the traditional way of doing politics in Colombia. PDA could gather support among those currently not voting, but ideological and administrative barriers must first be overcome (public campaign, and not the least, formal voter registration). If the international community and donors cannot contribute to the end of the conflict in Colombia, it can at least assist the victims of the humanitarian crisis the national government refuses to acknowledge.

*Colombia in the region.* Together with Peru and Ecuador, Colombia negotiated a free-trade agreement (TLC) with USA in 2005. The agreement needs to be ratified by Congress this year, something which is likely to happen given the government's parliamentary majority. Colombia has been subject to criticism from Venezuelan President Hugo Chávez in relation to the TLC, and had also received complaints from Bolivia, due to possible implications for Bolivian exports to Colombia (guaranteed in the framework of the Andean Community). Colombia has declared itself in support of the Andean Community, and supported Peru in denouncing Venezuela's involvement in national affairs at the OAE recently.

***Postscript.*** As expected, President Alvaro Uribe won the presidential elections on May 28 2006, with 62% of the votes. PDA has become the second largest party in the country, with 22% of votes. The liberal party reached less than 12% of votes. However, electoral turnout was very low: only 45% of eligible voters participated in this year's elections. Low voter participation does not sustain clear mandates. A main challenge for the Colombian political system in general, and progressive political parties in particular, is to mobilize all those potential voters who opt not to exert their right to vote.

## ***Ecuador***

The current political and socio-economic situation in Ecuador can be characterised as a tense period of waiting. The current administration is an interim government appointed by the national congress to replace former elected President Gutiérrez, who was removed

from office in April 2005 after a long period of popular protests against his increasing authoritarianism. New presidential elections are scheduled for October 3 2006. Current President Palacio (Gutiérrez' former vice-president) aimed to bring political stability to this otherwise most unstable Andean country, without much success. Events in the oil sector last week can be seen as his last attempt to settle things down before the country starts the electoral campaign for full.

### **Actors**

Former President **Lucio Gutiérrez** joins a long list of presidents in Ecuador to be removed from office due to popular protests against their rule; Jamil Mahuad in 2000 and Abdalá Bucaram in 1997 are the most recent ones. Until Gutiérrez was elected in 2002, Ecuadorian politics had been dominated by the traditional political parties, representing the economic elite and power structures. This changed in the 2002 elections, where neither of the candidates going for the second round came from the traditional parties, but from independent lists. In fact, the four lists that obtained most voter support (between 14 and 20%) belonged to left and centre-left parties. Gutiérrez' list was a coalition between the indigenous movement and leftist parties, which gave a sense of hope and alternative to voters from the poorest sectors of the population. Two years later, disappointment was widespread. The Gutiérrez administration abandoned its leftist background, and became in the eyes of its constituency, more "servile" to US interests. The presence of American troops in the Manta military base to support the war on drugs, his "re-organization" of the Supreme Court of Justice, and finally the discharge of corruption cases against two former presidents led protestors to call for his resignation. Gutiérrez sought refuge in Brazil, was later detained and jailed in Ecuador for a few months; he was recently sat free, and has announced his candidacy for the upcoming elections.

So far have only four candidates officially announced their participation in the presidential elections. Two candidates are considered as the most likely to win the election , or at least, make it to the second round: **León Roldos**, from *Red Ética y Democrática*, a coalition led by the socialist party and gathering support from other minor leftist parties; and **Rafael Correa** from *Alianza País*, a centre-left coalition. Correa hoped to gain support from the indigenous movement, but ECUARUNARI and CONAIE (see below) have recently announced that they will present their own presidential candidate to the upcoming elections.

The outgoing administration led by President **Alfredo Palacio** has had to deal with increasing criticism for not being responsive to popular demands. Some observers argue that the only reason why he has not been removed yet is that new elections are on their way. Palacio was also faced with a reticent congress, so his plans for a Constitutional Assembly to amend Ecuador's 1998 Constitution had to be abandoned. The recent move of closing a contract with an American oil company might remain as the most notorious action undertaken during his administration.

The political instability in Ecuador is reflected in the short lives of political parties and electoral lists. The opposite is the case with the indigenous movement, which has gathered strength since the 1980s, and has demonstrated an extraordinary power of mobilization time and again. It is only in the last decade however, that the indigenous movement has entered the sphere of party politics with congressional candidates and in alliances for presidential elections. In 2002, the indigenous movement supported Gutiérrez through the *Movimiento Pluri-nacional Unificado Pachakutik – Nuevo País*. The indigenous movement comprises several regional organizations which form part of a national confederation, CONAIE (*Confederación de Naciones Indígenas de Ecuador*). ECUARUNARI (*Confederación de los Pueblos de Nacionalidad Kichua del Ecuador*) represents the highland kichua population, and is the most influential member of CONAIE, while) represents the peoples of the Amazonian rainforest. A similar organisation exists also fro smaller ethnic groups from the coastal region. The indigenous movement's agenda does indeed include a number of demands and entitlements for indigenous peoples in Ecuador; their proposal however, is one that calls for the construction of a modern state that responds to the needs of all Ecuadorians, based on participatory democracy and a qualitative transformation of the way state and nation are conceptualized.

### **Issues & Dynamics**

According to official figures for 2005, 52% of the population live under the national poverty line. In rural areas, where the majority of indigenous people live, the situation is even more serious. Eight out of every ten people are poor in rural areas, while in urban areas, four out of ten are in a similar situation. Social demands raised by political actors and social movements are thus based in a context of poverty and social inequality.

One of the most contested issues in Ecuador during the last year has been the government's attempt to reach a free trade agreement with USA. The negotiations started under the Gutiérrez administration, and were continued by Palacio – in spite of continuous demonstrations by trade unions and the indigenous movement, as well as other social actors. The last round of negotiations that took place in March provoked widespread mobilizations across the country. The indigenous movement has played a vital role in these mobilisations, and has succeeded in linking the FTA issue with other demands. Under the banner of "Popular and indigenous uprising against the FTA – yes to life, not to FTA, out with Oxy, no to Plan Colombia", the indigenous movement put forward a platform that rejects what is suspected to be US influence in Ecuador – through trade liberalisation, oil companies, and military presence. The issue against Oxy (Occidental Petroleum) is a long standing one for the indigenous movement, due to the environmental damaged to indigenous lands caused by oil production. Through the indigenous movement the struggle against the FTA and the foreign exploitation of natural resources became one joint cause.

Last month the government approached its American counterpart to resume FTA negotiations. The US responded negatively, expressing that negotiations would be on hold until Ecuador resolved a number of pending investment disputes. Among these are the US objections to the new petroleum law which was approved by Congress in mid-April. The US questions how it can trust Ecuador to honour future FTA commitments if it does not honour the contracts that oil companies have negotiated with the state oil company.

Given the above situation, it was therefore surprising that the government announced on May 15 the cancellation of the oil operation contracts of Occidental, on the grounds that the company had violated the terms of its contract by selling 40% of its assets to Canadian EnCana in 2000 without Ecuador's approval (the shares have since then been sold to Chinese company). Thirty other violations were alleged. The cancellation implies the immediate delivery of all assets to the state company PetroEcuador. The government gave Oxy "60 days to rectify the problems cited or provide evidence disproving the allegations".

The US administration responded by freezing FTA negotiations with Ecuador until there is clarification about the action taken by the government, and about the payment of compensation to the company for their assets and production losses. Oxy is the largest foreign investor Ecuador, with a production of 101,000 barrels per day. Oxy's production in Ecuador is estimated to be 7% of its worldwide production, and 20% of Ecuador's total oil production. Ecuador is also the fifth oil producer in Latin America.

Indigenous movements have greeted the government's action, considering it a triumph for their struggle against the foreign exploitation of natural resources. Business sectors in Ecuador seem to be divided on the issue. The effect that this will have on the FTA is considerable, in spite of the government's reassurance that involves Oxy along, and not the oil sector at large. Another challenge is whether PetroEcuador is capable of managing such large operations as the Oxy production sites involve. The government announced that state-owned oil companies in the region would be approached to consider joint operations in the fields previously run by Oxy. On Saturday 20, it was confirmed that the minister of energy had travelled to Venezuela to meet his counterpart to discuss collaboration in the oil production.

### **Natural Resources**

The petroleum sector in Ecuador contributes about 12 % of the GDP and 40 % of exports (World Bank 2005). Oil is exploited in the Amazonian jungle and brought to the coast through two pipelines. The newest one started to operate in 2003, increasing profitability considerably not only due to the doubling of capacity, but also because different qualities could now be separated.

The state company PETROECUADOR controls the bulk of the oil reserves and more than 50 % of production, even though local companies and multi-national corporations have

become more active since the mid 1990s. In contrast to natural gas, the price of oil is set on the world market. According to the World Bank (2005), private companies are now investing more than 1 bill. USD pr year<sup>6</sup>, while the state investments have shrunk to less than 90 mill USD. A new hidrocarbures law was approved by congress in mid-April 2006, increasing the share of return from foreign companies from 20% to 50% of profits. The law is originally designed to facilitate the entry of private firms, both in production and not at least “down-stream” activity, i.e. refining and industry (but the cancellation of the Oxy contract might be giving the opposite signal to foreign investors).

The popular protest in March this year against the Free Trade Agreement to be signed with USA was able to stop the transport of oil in order to influence the government. This coincided with union strikes in the oil producing regions, who demand a larger share of the government resource tax income for their provinces. This demand is partially addressed by the new petroleum law.

### **Trends**

Both the FTA and the cancellation of the Oxy contract will most likely influence the electoral campaign to come. Candidates will have to consider carefully their positions in respect to these issues, if they want to secure popular support. Whoever has the indigenous movement’s support is likely to become the next president. At the same time, the indigenous movement has the power to remove presidents if they do not fulfil their promises. On May 20, it was confirmed that the indigenous movement will present their own presidential candidate for the next elections, possibly as a result of the bitter experience with former President Gutiérrez. The experience of Evo Morales in Bolivia is possibly a source of inspiration for the indigenous movement in Ecuador, but internal struggles can be expected regarding not only the candidate, but also about the movement’s capacity to assume the national government. Other issues that will dominate the electoral debate will be poverty, corruption, and a constitutional assembly. Unfortunately, the first two were also first on the agenda in the 2002 elections; while the constitutional assembly is a pressing issue for the indigenous movement.

With the Oxy move President Palacio possibly aimed to stabilize the country before elections. According to some observers, however, what he just did is to open Ecuador's door to the leftist "pink-tide" going around in Latin America. These are indeed very exciting times for Ecuador.

*Ecuador in the region.* Ecuador is member of the Andean Community of Nations, and joined Peru and Colombia in initiating negotiations with USA for a free trade agreement. Its relationship with Colombia has been affected by the reception of increasing number of refugees escaping the armed conflict. The use of the Manta base to support the US-led war

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<sup>6</sup> The main MNCs are Alberta Energy, Repsol YPF, Agip, and Occidental Petroleum.



on drugs and Plan Colombia has caused controversy internally. Until now Ecuador has kept a low profile concerning regional leaderships; this situation might change after the upcoming presidential elections.

## **Peru**

The current situation in Peru is marked by the current presidential and congressional elections. At the moment of writing, it is most likely that former President Alan García will be meeting nationalist candidate Ollanta Humala at the second round of elections, the first week of June at the latest. The first round elections last April had a high participation rate, with 88% of registered voters exercising their right to vote.

### **Actors**

The element of surprise that characterizes the current electoral context has much to do with the administration of current President **Alejandro Toledo**. This president will be remembered in Peruvian history as a prime example of the volatility of political popularity. The leader of a broad political front known as “Movimiento de los 4 Suyos” (in reference to the four regions of the Inca Empire), who managed to gather support against former President Fujimori and mobilized thousands across the country in the 2000 elections, is now a lonely figure with less than a 7% approval rate. Even worse, his political coalition *Peru Posible* and *Frente Independiente Moralizador* have hardly managed to get a seat in congress after the recent election, thus being erased from the political scene for the time being. The regime’s popularity has fallen gradually as a result of several corruption scandals involving the president’s family, and privatization plans which were met with strong opposition by trade unions.

Today’s most notorious political figure is former military officer **Ollanta Humala**, leader of the *Partido Nacionalista Peruano* (PNP). Humala jumped into the political scene when he led a military rebellion against Fujimori in 2000, shortly before the regime came to an end. Together with his brother **Antauro**, also in the military, they endorsed a doctrine called “Ethno-Cacerista” developed earlier by their own father. Ethno-cacerismo is based on nationalist ideology and inspired by former President Juan Velasco and Pacific War hero Andrés A. Cáceres. Until 2004, the Humala brothers and the ethno-cacerista “movement” were considered the controversial and colourful element in the Peruvian political scene. They adopted a mixture of Andean and fascist symbolism, and an authoritarian rhetoric calling for the need of revolution and change. They also organized a supporter organization known as *reservistas*, who wear army-like uniforms and endorse military-like discipline and structure. The failed “uprising” of Antauro Humala and a group of his *reservistas* in Andahuaylas in January 2004, leaving six policemen dead, changed the initial impression of the ethno-cacerista movement as harmless. Ollanta, the formal head of the party, both condemned and distanced himself from the events in Andahuaylas.

This would initiate a process of division within the ethno-cacerista movement, which took a more concrete form with the creation of the *Partido Nacionalista Peruano* by Ollanta Humala and his wife in April 2005. In December the same year, Ollanta forms an electoral alliance with *Unión por el Perú* (UPP), with him as presidential candidate. The alliance of UPP-PNP turns out beneficial for both parties, as UPP provides a national party structure with congressional experience (3 elected congressmen in the current period), while PNP provides the charismatic leader UPP does not have.

According to media sources in Peru, Humala is supported by the poorer sectors of the population, particularly in southern Andes region and in rural areas. His party has managed to place in congress three female representatives closely connected to coca-producing peasant organizations. PNP supporters have also been observed attending all sorts of peasant community meetings in the countryside. It is worth noting that the ethnic rhetoric of his ethno-cacerista base has been toned down in PNP. Nonetheless, it is the only party that has translated its entire government plan to Quechua – and posted it on internet.

After a disastrous administration in the period 1985-90, APRA (*Acción Popular Revolucionaria Popular*), lost popular support across the country, becoming but a shadow of more glorious times. Yet the resilience of a core constituency, particularly in the northern coastal regions, together with a strong party organization, have contributed to the fact that APRA is the only party of the “old generation” to survive the crisis of political representation in Peru. While traditional parties have seen their constituencies be reduced to insignificance, APRA reached 22% of given votes in 2001, and 20% this year. For many Peruvians, support APRA is likened to the refusal of history; yet for 1/5 of the population, it still offers a viable political alternative.

Alan García is referred to as a “populist” leader, in the negative sense of using populist tactics to gain support. To their defence, *apristas* argue that APRA today is not the same party as it was 20 years ago. They argue that lessons have been learned, not only from their own failures, but also from what happened since they left the government. As in its formative period, APRA supporters constitute a broad front of workers, peasants, civil servants, miners, small and medium entrepreneurs and traders. Increasing numbers of young people and the middle class have turned to APRA in recent years. In this sense, APRA represents a variety of interest groups, and their main political message is the need for concerted action, “concertación”, among different sectors of society.

Peru is yet to see a female president in the near future. *Unidad Nacional* (UN), led by *Lourdes Flores*, lost the electoral race by less than 1% of the vote. UN aimed to appeal to all sectors of the population, yet their supporters came mainly from the upper and middle-classes. Flores’ detractors called her “the representative of the rich”, for her support to a liberal market economy. UN will play an important role in congress however, as they count with 20 out of 120 congressional seats.

There are numerous trade unions, popular and interest organizations in Peru; but broad political fronts are rare and often short-lived. Trade unions were weakened by neo-liberal policies of the Fujimori regime, and they are still in a process of recovery. The private sector (particularly medium and large enterprises) on the contrary, is well organized and vocal. Women's groups and organizations are numerous, and extremely active, particularly at grassroots level. A nation-wide women's organization active at the community level is the *Club de Madres* (Mother's Clubs). Women members organize in their local communities, usually in poor areas either in the countryside or in the cities. Activities have developed from the original support to community kitchens to educational and health programs.

Given its social base and composition, the ethno-cacerista movement cannot be considered as an indigenous movement. Broad indigenous movements similar to those in Bolivia and Ecuador are non-existent in Peru, while a number of smaller groups have been formed, particular among the native populations of the Amazonian rainforest. Besides these groups, there is no tradition among the highland population to formulate economic and political demands in ethnic terms (such as "quechua" or "aymara"). Claims are usually framed in terms of rights and citizenship. Peru is a good example of the complex realities that do not fit fixed categories such as "indigenous peoples".

### **Issues & Dynamics**

In 2001, the main priority of the government was to secure economic stability, both for national production and international investment, after a period of political instability and transition. Toledo's government did not differ much from his predecessor in terms of economic policy, and during his administration, Peru has indeed experienced unprecedented economic growth.

The problem resides in that the trickle-down effect of economic growth has not overcome current poverty levels, nor has it solved the problem of unemployment (or rather, under employment). The president's main objective of reducing poverty has shown very modest results by the end of his term. Even when there has been a reduction in poverty levels since 2001, by 2004 51% were poor, and 19% lived in conditions of extreme poverty. The benefits of economic growth are already noticeable among the urban middle classes, also the most vocal sector of the population. Yet poverty in the peri-urban and rural areas persists, affecting also indigenous population, often the poorest of the poor.

The decentralization process in Peru implemented in the last four years has been a serious attempt to meet the challenge of regional inequalities through mechanisms of local representation and political participation. Results have been mixed, yet the process is now well established in the institutional framework. Local mechanisms of popular participation such as "*Planificación Concertada*", "*Presupuesto Participativo*", and "*Mesas de*

*Concertación de Lucha contra la Pobreza*” are now common across the country. Their impact however, might be limited, particularly if the demands aired in such fora do not lead to concrete results.

One of Toledo’s major (if few) political achievements has been the signing of a multi-party, multi-sectoral agreement known as “*Acuerdo Nacional*” (AN; National Agreement) in July 2002, which established 31 state policies concerted and agreed upon by the government, political parties, private sector and civil society representatives. The objective of this initiative was to agree upon a common vision for Peru in the long-term. Its endorsement by political actors of different orientations would provide a common and stable base for the development of Peru’s future political, social and economic development. Furthermore, it has established a channel for multi-sectoral dialogue and participation, which also monitors progress made by the government to reach the objectives of national policy. In the current electoral context, the *Acuerdo Nacional* has served as a framework for debate, and its objectives are shared across the party spectrum. For international observers, the AN provides a minimum of stability and continuity in Peruvian national policies.

In spite of other appearances, the democratic practice has taken root in Peru. We are witnessing the use of electoral mechanisms to express popular dissatisfaction with the current administration and the political party system. It was only 25 years ago that the vote to the illiterate was granted by the Constitution of 1979, most of which were the poor, indigenous, peasant population. The practice of democracy was obstructed by the armed conflict of the 1980s and 1990s. Already in the 1990s elections, dissatisfaction and the use of the ballot box to induce change could be observed; the same in 2001 with Toledo and now again, with Humala. Although this electoral race might not be an “informed choice” in the sense that the voter knows well the government plans of each candidate, her choice is based in the knowledge of what she wants and does not have. For the poor and marginalized then, Humala and to a certain extent Alan too, express alternatives for change. For the educated middle-class however, such support is the “the vote of ignorance”. Particularly if Humala is elected president, he can expect to face a fierce opposition from the middle class.

An issue that is turning divisive in Peru is the Free Trade Agreement (*Tratado de Libre Comercio* - TLC) with USA. Negotiations started in 2004, accompanied by Ecuador and Colombia, and concluded early this year. Approval by both the Peruvian and American Congress is still awaiting. The current administration would like to see the TLC signed before leaving office, yet the two candidates for the second presidential round have been critical of the TLC, and would rather leave that decision to the new elected Congress. In the current electoral context, the public debate on the TLC is more rhetorical than technical, and is being discussed in nationalist terms (“for or against yanquis”, “selling/betraying Peru”). Another topic that in other circumstances would not have

reached the electoral agenda is “globalisation”, focusing mainly on threats rather than benefits. Although these topics are of limited import for large sectors of the population, they are also very close to home for others, such as coca-producing peasants in the Andean highlands, cotton and sugar farmers in the coast, and even small and medium-size firms.

### **Natural Resources**

Extraction of minerals are the main natural resource based economic activity in this Andean country, and constitutes now about 6.2 % of the GDP rising from 3,5% in 1991.<sup>7</sup> This increase is mainly due to investments by multinational mining companies that responded positively to company favourable conditions introduced during the Fujimori presidency, i.e. free movement of profits, and low taxation rates after subtraction of investment costs. As world market prices on minerals have risen considerably in the recent years , the contracts for the multinationals have increasingly become scrutinized and criticized at two major points.

The tax income from this sector is still minimal, being currently at the same level as the petroleum sector, even if it is 10 times larger and represents 40 % of total exports.<sup>8</sup> The main reason is the extremely beneficial write-off rules for heavy investments (about 9 bill. USD since 1992) where no net tax income is paid until all investments have been recuperated, in addition, there is hardly any licence fees.<sup>9</sup>

In some instances there have been protests against environmental consequences of the mining activities.<sup>10</sup> The American multi-national **Newport** had to apologize for a new project connected to the gigantic gold mine of Yanacocha last year. However, at the heart of the discontent is the fact that modern mining industry is extremely capital intensive employing very few people. So even if minerals constitute 55 % of exports, less than 1 % of the working force is employed. The owners counter by saying that 29 % of the public tax income is paid by the industry, while the government has unsuccessfully tried to introduce a royalty paid directly to the state as a 3 % sales tax.

Returns to the local population by mining is also considered to be small.<sup>11</sup> These local communities directly affected by the activity have been compensated for their losses by the judicial system rather than through direct negotiation with the multinationals. The regional and district authorities where mining takes place do however receive a fixed share of the resource tax income which originates there. However, as the total tax income is small, so is

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<sup>7</sup> Vigila Perú (2005).

<sup>8</sup> Barrantes et al. (2005).

<sup>9</sup> The normal sales tax is also mostly refunded due to the special agreements achieved by this industry.

<sup>10</sup> Academia has become increasingly interested in studying how local communities now are actually able to influence the development of large scale MNC project, e.g. Gil (2006).

<sup>11</sup> According to Vigila Peru (2005), the distribution of USD 310 mill in natural resource tax income in 2004 was 40% from the petroleum sector, 41% mining, 10% hydropower, 2% fisheries, and 7% gas (no tax income from forestry).

the share distributed to the districts. This is, however, increasing sharply as the tax haven disappears, i.e. from 6 to 30 mill USD in the two last years.

Natural gas has lately become a new and increasingly important natural resource in Peru. What is known as the **Camisea Project** is the exploitation of the San Martin and Cashiriari fields, jointly known as Block-88 (and in the future the adjacent block 55 ) in the jungle close to Cuzco.<sup>12</sup> The building of two pipelines to Lima/Callao has been completed<sup>13</sup> and the distribution system to both industry and consumers in Lima is already operating. A LNG project with total cost of USD 2.2 billion for exports to USA and Mexico is being developed.<sup>14</sup> Other mayor gas deposits are not known. Critical voices have been raised by local populations and environmental groups concerning the effect of gas production sites and pipelines upon the natural environment and people's livelihoods, particularly in the rainforests in Camisea, and the national reserve of Paracas.

Oil exploitation is a negligible industry in Peru, yet the country is number two in world fisheries.<sup>15</sup> Even though a large share is caught by industrial (and often foreign) trawlers, the amount collected in taxes is rather small. The exploitation of natural resources hence constitute an important part of the Peruvian economy, but there is still potential for the government to capture a larger share of the resource rent available for the good of the people.

## Trends

The current situation is a scenario feared by many Peruvians, who see the choice between Humala and García as a choice between two evils. It will therefore be very difficult to attract voters from other parties. In congress, the absence of a clear majority means that the executive branch will face limits in policy implementation. Although UPP has almost as many seats as APRA, none have a clear majority, and will have to depend on alliances with other parties.

The main challenge facing the new government will be how to sustain Peru's rapid economic growth while reducing poverty. The relevance and institutionalization of the *Acuerdo Nacional* will be put to a test with a new government. APRA has publicly endorsed its support to the AC prior and during the campaign, and it is likely to implement it. A different scenario could be expected if UPP-PNC win the election, since of the two parties, only UPP signed the agreement, as PNP did not exist at the time.

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<sup>12</sup> Pluspetrol Peru Corporation S.A. (operator), Hunt Oil Company of Peru, SK Corporation and Tecpetrol del Peru (fully owned by Techint Group).

<sup>13</sup> Transportadora de Gas del Perú (TGP) is the Peruvian company in charge of the Transportation project. It is led by Tecgas N.V. and formed by other international companies: [Pluspetrol Resources Corporation](#); [Hunt Oil Company](#); [Sonatrach Petroleum corporation B.V.I.](#); [Graña y Montero S.A.](#); [SK Corporation](#); and [Tractebel](#).

<sup>14</sup> The Peru-LNG Consortium consisting of Hunt Oil and SK.

<sup>15</sup> FAO(2006) statistics.

It is most likely that the approval of the TLC with USA will be put on hold by the new government. Furthermore, even in the event of signing the TLC, it is most likely that South American integration fora are to be pursued. In the case of candidate Humala, the leadership of Venezuela is likely to be supported. When it comes to APRA, Brazil's leadership and the CAN seem to be the most preferable options.

**Postscript.** After a very intense electoral campaign, APRA's candidate and former president Alan García won the second round for presidential elections on June 9 2006, with 52,2% of the votes. The Nationalist candidate obtained 47,3 % of the electoral support. Voter participation was 88%. The results have been welcomed and accepted by contesting political parties. Apra has already announced its support for economic stability. As elected president, he has already visited President Lula in Brazil, to discuss anti-poverty strategies. Under the current context, a smooth transition to the new administration can be expected

## **Uruguay**

The current political and socio-economic situation in Uruguay is one of stability and economic pragmatism. Current President Vázquez is the first left-wing elected president in the country's history. His first year in office has demonstrated a balanced and practical approach to social and economic policy, one which combines emphasis in poverty, employment and the need for foreign investment.

### **Actors**

President **Tabaré Vasquez** was elected in October 2004 with 51% of the vote, surpassing the two traditional parties that had governed Uruguay for 170 years. Former mayor of Montevideo for several terms, Vázquez was the candidate of the leftist coalition **Frente Amplio** (Broad Coalition), originally formed in 1971; today, the coalition includes 18 different leftist groups, from social democrats to communists, ex-Tupamaro guerrillas to social-Christians. The elections of 2004 were the left's third attempt to win the government. Failing to reach a majority in 1994 and 1999, results indicated increasing popular support for the Broad Front.

The political opposition in Uruguay is composed by the two traditional centre-right parties: the Whites (National Party, known as *Blancos*) and the Reds (Red Party, known as *Colorados*). They constitute the second and third largest political forces in Uruguay respectively.

### **Issues & Dynamics**

Uruguay is a small country of about 3 million inhabitants whose economy is largely based on agricultural commodities (mainly meat and related products). Extractable natural resources are very limited. The country's population size implies a limited impact on

regional demand and price setting. Nonetheless, Uruguay is possibly the first Latin American country to establish a welfare system, largely based on internal taxation, and has a highly educated population. Uruguay's democratic tradition is longstanding, though it was interrupted in the period 1973-1985 by a military dictatorship. Subsequent governments by traditional party's contributed to re-established democracy, but their implementation of neo-liberal policies, particularly attempts to privatize natural resources (water) and the energy sector were met with strong popular opposition. In 2003 the government was defeated in a referendum for the privatization of the state-owned company (ANCAP) in 2003; the Broad Front played an active role in this cause.

The election of President Vázquez has been interpreted as the combined result of the left's success in formulating an alternative to the neo-liberal policies practiced by previous government, and popular disenchantment with those same policies. Argentina's economic crisis had a strong impact in Uruguay, which experienced a decline of 11% in GDP, rising unemployment levels (up to 20%), and the impoverishment of a third of its population. Inflation increased, as did emigration.

According to political observers, the Vázquez administration bears many similarities to President Lula's in Brazil: it gives priority to a social agenda, while ensuring economic stability. Uruguay has continued to pay its foreign debt to the IMF in time, in order to secure its credibility among foreign investors. The government sees capital investments as a way to diversify the national economy and create employment. The construction of two cellulose plants by Spanish and Finnish investors ENCE and Botnia on the shores of river Uruguay have to be seen in this context. The plants amount to an investment of USD 1.8 billion dollars, the largest capital investment ever made in Uruguay. In spite of continuous protests from Argentina, and even environmental organisations in Uruguay, the government has taken an uncompromising stance about this issue. A round of bilateral meetings to discuss the environmental implications of the cellulose plants failed to bring an agreement, with Argentina now opting to take legal action at the international level. In the meantime, protests continue and the tourist industry is the first one to be affected by the crisis, as the flow of argentine tourists visiting Uruguayan resorts has been dramatically reduced.

Concerning social policy, one of the first actions of the current administration was the approval of a comprehensive anti-poverty plan called National Assistance Plan for Social Emergency (*Plan de Asistencia Nacional a la Emergencia Social* - PANES). This plan has already reduced unemployment to 12%.

The government's commitment to follow its electoral promises can also be observed in current legal actions take against former military and police officers charged with violating human rights during the period of military dictatorship. Earlier this month the first arrests since the restoration of democracy in 1985 were made, involving six officers for whom



Argentina has requested extradition procedures. Excavations looking for the bodies of “disappeared” victims in former military compounds have also been initiated by the government. Civil society organizations on their part, are organizing a call for a referendum to abolish the amnesty law (known as *Ley de Caducidad*), which provides amnesty to members of the military and police forces involved in human rights abuses during the dictatorship. The government is likely to support this initiative, as the Broad Front has opposed that law since its promulgation in 1986 and referendum approval in 1989.

### **Trends**

Uruguay has initiated its first left-government showing political and economic stability and positive results. The recent dispute with Argentina can disrupt this stability, both at the national and regional level. President Vázquez has still four more years in office. His tackling of the current paper mill crisis will play a significant role in the future course of his mandate.

*Uruguay in the region.* In spite of symbolic acts such as restoring diplomatic relations with Cuba soon after taking office, the Vázquez’s administration is more aligned to the moderate left governments in the region, such as Brazil. Uruguay is a member of Mercosur. The current dispute with Argentina over the construction of the cellulose plants threatens the internal cohesion of this regional organization. Furthermore, Uruguay and Paraguay have openly raised concerns about their relative discrimination vis-à-vis their much larger partners, Argentina and Brazil. Uruguay has similarly aired the possibility of entering into a free trade agreement with USA, something which is in open breach of the Mercosur pact.

### **Venezuela**

The current political situation in Venezuela is marked by the consolidation of the reform process initiated by President Hugo Chávez, whose dynamic and uncompromising character has the country in the regional and international scene. Through his "Bolivarian Revolution", his commentaries not only on national issues but also on the electoral processes in neighbouring countries, his support to the nationalization of gas industries in Bolivia, and lately, the US ban of arms sales to Venezuela, the president emerges as a hero of anti-imperialism and Latin American integration for some, and a loud populist "caudillo" for others. Some observers have noted that there is not necessarily a correspondence between what “Chávez says and what Chávez does”. With presidential elections six months from now (3 December 2006), media campaigns in favour and against Chávez will be intense; discerning between rhetoric and “facts” can become increasingly difficult.

## Actors

**Hugo Chávez Frías**, the presidential candidate of “Patriotic Pole” (PP, *Polo Patriótico*), an electoral coalition against traditional political parties, was elected president of Venezuela in 1998. The coalition included Chávez’ own left-leaning *Movimiento Quinta República* (MVR) and several other smaller left-wing parties. They presented a comprehensive social and political reform agenda, one that emphasized anti-poverty and anti-corruption measures. In the 1998 election’s PP obtained 60% of the vote, a substantial mandate even when electoral turnout was no more than 56%. Since the beginning of his government, Chávez has undertaken numerous referendums and elections, called for a constitutional assembly, and established a new national constitution. The president also faced a 2-day coup in 2002, and a recall referendum in 2004, asking the Venezuelan public whether he should be removed from office or not. With an unprecedented voter turn-out of 70%, 59% of eligible voters said they wanted Chávez to continue. In spite of various attempts to cast doubt over the legitimacy of his mandate, President Chávez had managed to rally popular support for what he calls the “Bolivarian Revolution”, a national project of structural change for the country.

The opposition is today led by what used to be the main traditional political parties in Venezuela before Chávez, both founded in the 1940s. “Democratic Action” (AD, *Acción Democrática*) is a social democratic party which still enjoys some support among voters; it has become discredited by years of corruption, nepotism and mismanagement of the country's economy. Of the nine popularly elected presidents that have held office since the end of military rule in 1958, five have been from AD. The Venezuelan Christian Democratic Party (COPEI, *Comité de Organización Política Electoral Independiente*) used to alternate power with AD, but its reputation deteriorated dramatically in the 1990s, and has not managed to refashion itself into a credible opposition force.

Both AD and COPEI belong to the sector known as “*abstencionistas*”, for abstaining to participate in the congressional elections in December 2005. Opposition parties that did participate in congressional elections are known as “*participacionistas*”. Aware of their limited political strength, opposition parties have made initial moves to join forces behind a single presidential candidate in the upcoming elections. However, it is uncertain whether the opposition will be able to overcome both internal differences and competition among themselves.

The political scene in Venezuela includes a number of popular based organizations which account for much of the popular support the Chávez government enjoys. One of them is the “Bolivarian Circles” (*Círculos Bolivarianos*), small local groups aimed to put in practice principles of “participatory democracy” established by the national constitution. These groups operate autonomously from the government, but are – at the same time – intended to facilitate contact between citizens and the state through the discussion of local problems, the formulation of specific demands to the authorities, and ultimately, finding a solution to

the problem. Public economic support is provided for local projects such as health posts, schools, transportation, play-grounds, and radio stations. Circles are locally-based, but they have a national network-like organization. Although not directly linked to MVR, large numbers of Bolivarian circles' members have been present in support demonstrations for President Chávez, giving ground to the argument that they are politically tied to the government. Opponents contend that the groups resemble Cuba's Committees for Defense of the Revolution (CDRs) and serve to further the "Cubanization" of Venezuelan society (AFP 18 Jun 2001). The Circles started around 2000 and have continued to form across the country and abroad.

The Urban Land Committees (CTU, *Comités de Tierras Urbanas*) have not received much attention in the political analysis of current Venezuela, yet because of the numbers of people involved, as well as the type of practice they engage into, their role in the process of change is at least as important as the Círculos Bolivarianos and the "misiones" (see below). They embody the three key issues of the current Venezuelan process: ownership, participation, and state-community relations. The CTUs are locally-based organizations seeking the legalization/formalization of property rights over the houses where CTU member families live. While this is the original purpose, once organized CTU members are free to make use of the organization to solve a number of community issues, even engaging into community projects. CTU's are entitled to government funding for housing and small infrastructural projects suggested by members themselves. The community is involved directly in the supervision of the work and the use of funds. The participatory mechanisms involved in CTU's work have become a valuable experience in the practice of citizenship. There are currently 5,212 CTUs operating in poor urban areas across the country, each with an average of 147 families; in other words, an estimate of 5.7 million people (more than 1/5 of Venezuela's population).

Another influential actor in Venezuelan politics is the media. Powerful economic groups in opposition to Chávez are behind private media agencies and networks. The government response has been the creation of its own media networks. The result is a polarisation of meaning in public debate, and a constant struggle to formulate and reformulate the political agenda. International influential media actors have also been drawn into polarized interpretations. This makes it increasingly difficult to make a clear and objective judgement of what is going on in the country.

### **Issues & Dynamics**

The reforms that President Chávez introduced in Venezuela since he initiated his mandate in 1998, but particularly since 2000, when the new constitution was in place, have been strongly contested because they imply profound changes in both the distribution of wealth, and the type of democracy "as usual" Venezuelans had got used to. Natural resources, particularly the administration of the oil industry will be discussed in more detail in the

next section. Here, we will focus on the socio-political aspects of the "Bolivarian Revolution".

A former military lieutenant, President Chávez staged a coup to overthrow the government in 1992; the coup failed, and he had to spend two years in prison for the attempt. The declaration of emergency state among the legislative and judicial branches of government in 1999, bear similarities with a "self-coup" (like the one Fujimori staged in Peru in 1992), as it led to the granting of special powers to the presidency in order to reform what needed be. The rushed up process to establish a constitutional assembly and draft a constitution in two months, was interpreted by many as an attempt to de-institutionalize the state in favour of an authoritarian regime. Yet the National Constitution of 1999 is, to judge by many jurists, a legal document that advances the civil, social, political and economic rights of the people of Venezuela. At the same time, the constitution not only dropped the prior traditional arrangement of dual legislative powers, opting instead for a new single-chamber National Assembly; it also reduced the legislative branch's powers in a substantial way, transferring these to the president of Venezuela. It is the concentration of power in the presidential figure that gives ground to criticisms about authoritarianism and the danger of clientelism.

Particularly after the failed coup of 2002 and the take-over of PDVSA (see below), the opposition has done as much as it could to question the legitimacy of the presidential mandate. The last attempt was the congressional elections of 2005, where the opposition decided to boycott the elections as a form of protest against they argued were "conditions of foul-play." A few days before the elections, five opposition political parties had withdrawn from the election; AD and COPEI were joined by Justice First (*Primero Justicia*), Project Venezuela (*Proyecto Venezuela*) and New Time (*Un Nuevo Tiempo*). These political parties represent the majority of the opposition forces in the country. Not surprisingly then, MVR reached majority in congress, with 114 seats out of 160. The rest were divided among various leftist and *participacionista* parties. The surprising element was, however, voter turn-out of only 25%. This has been interpreted in several ways. For the opposition, this is a sign of a weak mandate. For Chávez supporters, the opposition plotted this in order to undermine the vote as undemocratic, after seeing their low standing on the polls. Some observers point to the weakness of democratic practices, while others see the proof of the complete deterioration and popular mistrust in party politics. For both the opposition and the government, it will be crucial to "get people out and voting", in order to get a mandate without any shadow of doubt.

The Chávez' government has claimed that its aim is to undertake structural change, fight poverty, and create a participatory and democratic society. According to official figures, 25% of the Venezuelan population lived with less than USD 2 a day in 2002. The government's social policy is currently being implemented through *Misiones Sociales* (Social Missions), which can be defined as social programs that address specific social

programs, identifying clear objectives, target groups/beneficiaries, and mechanisms to meet the challenge. All *misiones* share the common objective "to include all those men, women and children who have been excluded from the Venezuelan social system". The programs work in the areas of education, health, housing, employment, nutrition, and technology. The programs are fully funded by the government, and are very popular among their respective targets population. Misión Robinson, for example, is an adult literacy program which aims to end illiteracy in the country; and Misión Barrion Adentro provides health services to local communities. Other misiones have been more controversial, like "Misión Frias", which aims to organize and re-train former army soldiers, known as "*reservistas*". According to government sources, the misiones have been very successful in achieving their main objectives. The opposition instead, is very critical – not necessarily to the achievements – but of their potential to (re)create patronage relations between the president and local populations; it mistrusts the broad and locally-based way *misiones* operate for their potential political use and abuse. Observers have pointed out the widespread use of Bolivarian rhetoric in the *misiones*; this particular discourse and rhetoric, which emphasizes inclusion and participation in a national project has proved highly appealing among popular sectors in Venezuela

### **Natural Resources**

Venezuela is the mayor producer of gas and oil in Latin America and a considerable player in the world market, with 4 % of total oil production and 2.4 % of the gas reserves. The resurrection of OPEC after the low price level in the end of the 1990s could actually be credited to Chávez personally for his willingness to keep production levels low and to negotiate within the organisation (whereas his predecessors had more or less abandoned the cartel).

The history of the petroleum sector started in the early 1900s with international companies drilling mainly in the state of Maracaibo. The industry was nationalized in 1975 and the state company **Petróleos de Venezuela S.A.** (PDVSA) was put in charge of production and the collection of rents. This state monopoly on production was discharged in 1995 as part of the structural adjustment program in the country. The technical capability of PDVSA was reduced over time as international companies became more involved in the production, mostly through service contracts, as preferred by the government. Ideally this means that national governments control the oil and pay only for the provided services. However, most analysts agree that the companies were able to withdraw an unintended large share of the natural resource rents, e.g. by inflating costs and misreporting volumes and prices. What was left of the resource rent went into the coffers of PDVSA. However, the company profits did not automatically enter the state budget. Surplus was redirected to both good (and bad) causes on the will of company directors and individual politicians.

PDVSA was at first left untouched by Chávez' government intervention. Analysts tend to credit both the military coup in spring 2002 and the general strike afterwards, to high-

ranking PDVSA officers who wanted to pre-empt a *de facto* governmental takeover of this company and the petroleum industry. However, as both failed, Chávez fired the directors and their workers who had actively participated in the strike, about 40% of the total staff. With full control over PDVSA, a *de facto* increase of taxation to the companies took place through a tighter control of the company's financial reports for their service contracts and a rise in net taxation for company profits from 18 to 50 %. However, in smaller fields foreign companies previously were allowed to be the operator at most beneficial terms. This spring the Venezuelan government announced a national take over of 35 such fields. The contractors were ordered to give 51 % of the companies share in a given field to PDVSA by creating a joint venture, this joint venture were supposed to renegotiate the deal within a short period. **Elf** of Italy and **Total** of France did not reach an agreement within the time limit, and their total activity has therefore been confiscated by the state. The companies seem to prefer further negotiations rather than filing international legal actions.

The opposition to Chávez is not any longer in a position of power. Petroleum taxation systems and methods of operation are not being seriously discussed in Venezuela as a result of the polarisation of the political situations. In some sense Chávez inherited a “state within the state” PDVSA system where the company is both the producer and regulator (furthermore tax collector and revenue spender) on behalf of the state. The president however seems eager to keep the system as it is rather than segregating the production and regulator functions. Profits are still kept outside the state budget, directly at hand for good causes, and the president probably exercise considerable influence upon the incumbent president of PDVSA, **Rafael Ramirez Carreño**, who is at the same time the Minister of Energy and Mines in the Venezuelan government. The opposition asserts that PDVSA has contributed to a private slush fund of USD 20 billion for the president, making it easier for him to make political contribution to other countries (or the famously sponsoring of the samba school that won this years competition in Rio de Janeiro). The “Misiones” is mostly funded directly from PDVSA rather than over the state budget.

The natural gas deposits are poorly developed compared to its potential (table 3) given that the consumption demand is low and the refining sector is still in its infancy. The viability of the proposed inter-continental gas pipeline system (see discussion below) must be compared to the alternative of keeping the resource unexploited.

The international engagement by the Chávez government has been highly controversial since the very beginning of his presidency. The early “oil for doctors” swap with Cuba was heavily criticized by the opposition who saw sales at world market prices as better alternative. However, it might also be regarded as a stroke of genius to go beyond the OPEC production quota since Cuba can be regarded as outside the world market due to the inability to pay in hard currency. High oil prices have led to a huge influx of foreign currency in the country, and Venezuela is probably spending more than what is

commendable to develop the economy of the nation. The lack of transparency in governmental finances implies that it is hard to know how the surplus is invested. Long term savings in international funds are seemingly not preferred by the government; support to political friends abroad seems hence to be a reasonable option in a situation where the country gets more money than it could possibly spend. What the opposition calls “non-patriotic spending” has found some resonance also within the president's own supporters, making populist calls to spend the money on the needed at home, something which is ironically being (wisely) resisted by Chávez.

### **Trends**

The main issue for Venezuelan politics today, and the source of concern for observers at home and abroad, is how to use political will and muscle, without falling into authoritarianism. The reform process initiated by President Chávez is highly contested precisely because of the profound implications it has for national power elites. The propaganda war is very intense, and both sides are extremely active. President Chávez will continue to find support for his reform program among poor sectors of the population. He is a populist leader in the sense that he appeals to the masses by using common populist techniques, such as referring to the country's great potential truncated by powerful elites; the real power of the people; and the vision of an alternative nation-building project. One may like or dislike the president's personal style, but cannot ignore the fact that he has been elected by a large constituency – time and again, and that his government is implementing much needed social, economic and political reforms in Venezuela. The challenge for the president will be to keep a pace with the people's sense of ownership of the Bolivarian Revolution; does Chávez really mean it when he says that it is "theirs, the people's" revolution, and not "his"? And how sustainable would the changes be – without him in office? These are open ended questions for the time being.

*Venezuela in the region.* Venezuela has become more active in the regional scene since the beginning of the Chávez administration. Chávez has been inspired by the pan-americanist ideals of Simon Bolívar, and become a promoter of Latin America cooperation and integration. In 2001 he introduced “ALBA” (*Alternativa Bolivariana para las Américas*), as a proposed alternative to the U.S.-sponsored Free Trade Area of the Americas (FTAA, ALCA in its Spanish initials), differing from the latter in that it advocates a socially-oriented trade block rather than one strictly based on the logic of deregulated profit maximization. Although many countries share the ideals of ALBA, the only members so far are Venezuela, Cuba, and only recently, Bolivia. The point of contention lies in Venezuela's critical role to “American imperialism”. For President Chávez regional integration should aim to stand independently from US influence, both politically and economically. This position has gone beyond the rhetorical, and entered the field of international relations with neighbouring countries, affecting also other attempts of international integration and cooperation.

The most recent target of Chávez' criticism on regional affairs has been the Andean Community of Nations (CAN), from which Venezuela withdrew in April 2006, after accusing Colombia and Peru of betraying Latin American integration by signing bilateral trade agreements with USA. The timing for the withdrawal put CAN in a very difficult position; in May, CAN was to initiate dialogues with the European Union towards a cooperation agreement. The meeting in Vienna took place, but the original agenda had to be postponed until internal issues are clarified. It is worth noting that Venezuela has recently become an associated member of MERCOSUR.

Another aspect of Venezuela's regional presence is President Chávez involvement in electoral processes in other countries, through open support to specific candidates, or public comments about electoral processes. Diplomatic relations between Peru and Venezuela have suffered the most, as both countries have recalled their ambassadors after Peru complained for Chávez' intervention in internal affairs. Initial support for MAS in Bolivia has now transformed into collaboration with President Morales. Observers in Peru indicate that for the time being, Chávez' support to candidate Humala in Peru might be doing more harm than good for the nationalist's electoral campaign.

For some observers Chávez is a source of instability in the region, as his leadership could polarize South America between the "radical left" (also called "irresponsible" and "populist") countries lead by Venezuela, and the "moderate" social democratic, centre-left countries led by Brazil. Hopefully, Chávez' attempts to integrate the region will not contribute to further polarization.

#### **4. Natural resources: Some cross-cutting issues and regional aspects**

There are a number of issues regarding the exploitation and management of natural resources which are applicable for most South American countries. In this section we discuss some of these issues in more detail, in addition to providing some regional aspects that may influence the natural resources policy of individual countries.

##### **Decentralisation and formula based distribution of tax income**

Decentralisation has become a panacea for economic development in the previously highly centralised countries of Latin America. Regional, departments and local districts control an increasing share of the public funds, e.g. in Bolivia 29% of the total budget is controlled at local level according to World Bank (2005). The general feature of financial system of decentralised expenditures is to use fixed distribution keys to a given tax income source, e.g. oil taxation, rather than regarding the collection of national tax income and its



expenditure as two separate issues. The use of fixed keys for how resource rents shall be distributed by region and district without passing through the state budget is probably the result of comprehensive mistrust in the state/central government as a redistributing agency. If underground resources are considered to be more the wealth of the region where it is discovered rather than belonging to the national population as a whole, then “formula” based fiscal decentralisation may threaten the stability and unity of the state. This argument could be illustrated in the Norwegian context by giving a higher share of the “Oilfund” to Rogaland and Hordaland, on top of the positive effect through increased employment and extended effect of the business itself. The regions may even consider possible breaking away from Norway as they become stronger than the rest of the country. This is what is actually happening in Bolivia today. The department of Santa Cruz receives a large portion of the gas tax revenue, and has started to act like an independent region. The oil union strikes in Ecuador were directed towards raising the share of the resource revenue for the producing districts, illustrating the challenge of linking production and benefit of a natural resource to district autonomy, rather than national sovereignty. According to the World Bank (2005) districts in Ecuador only receive two % of resource revenues compared to 40 % in Peru, 48 % in Bolivia and as high as 62 % in Colombia (Table 8).

### **Preference for gross production taxes**

The preferred form of resource taxation is to impose gross production taxation rates, i.e. the state gets a fixed share of produced volumes of gross income rather than a share of the net profits. The main risks with this system relate to private companies. Since private firms do not get entire profits (even in cases when they do cover complete costs), they may leave marginal deposits in the ground; furthermore, search activity may be less than what is optimal for a given country. The advantages of gross production taxes for national governments are many. Public agencies may not possess the necessary knowledge to control and audit production accounts, or may have little confidence in private companies. Another advantage is that the state will be able to cash in at the moment the resources are extracted, while the subtraction from income of depreciated investment capital normally implies waiting several years before money starts coming into the state coffers. Its relative simplicity to enforce is what makes the system of gross production more attractive to national governments.

### **Integrated gas market**

Natural gas might end up being the main source of energy in South America if the countries are able to overcome major coordination problems in infrastructure investments. Bolivia and Venezuela can potentially export large amounts. The proposed 8000 km pipeline system from Venezuela to the Southern Cone with an estimated cost of USD 20 bill. has been ridiculed as Chávez’ private “white elephant” in the press, arguing that beyond 3000 km will it be cheaper to convert gas into LNG and ship it.<sup>16</sup> However, if one

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<sup>16</sup> E.g. The Economist February 11, 2006.

changes the perspective from marginal projects to calculate the profitability of an integrated pipeline system for the whole region, the viability might look differently. Such pipeline could supply the energy short regions of North-Eastern Brazil on the way south, and an integrated pipeline system is flexible in transferring volumes according to shifting demands. However, such transport systems and markets are difficult to construct in a piecemeal manner, and the trans-border trust and ability to commit to long term contracts needed to initiate large scale investments are not present in the current situation. Road, water pipelines and other infrastructure can be developed at the same time, and the positive effect of these externalities can represent the factor which tips the project in one direction of the other.

A functioning market could make the gas price competitive with other energy sources, and open for large scale consumption of gas as the “staple” energy source of South America. With abundant resources and no price cartel (OPEC is just oil), the “shadow value” of unused reserves is actually close to zero. This also implies that the resource rent (at least theoretically) should be zero, since any marginal project that covers costs will be realized in a free market economy, and the realised profits will be due to lower transport or extraction costs than the marginal field. The localized consumption of gas is also reflected in large discrepancy between local prices of gas in the world market.<sup>17</sup>

### **Monopolies choke supply**

The demand side of the energy market in the region is still in its infancy and the utility companies delivering products to both private consumers and the industry often abuse its their position of monopoly to set artificially high prices, thus attracting only the high priced consumer segment. Fagunes (2005) estimates that the price for residential consumers is 6 times higher than the city gate price and the industrial price twice as high. Petrobras nearly dominates all parts of the gas sector in the region, and other companies are reluctant to engage into real competition with this dominant player. Many state companies enjoy similar monopoly positions in the other Latin American countries, this way preventing a functioning market.

### **Inefficient state companies and foul play**

The intention of the deregulation of the energy markets during the structural adjustment period was to increase competition. Free markets with equilibrium prices would imply more investments, higher consumption and economic growth. However, in many cases the state monopoly became a private company monopoly and cartel, leading to inefficient markets and production (as Petrobras above). The “backlash” against free markets has made the reintroduction of state-owned companies with monopoly power more popular.

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<sup>17</sup> Among the world reference prices on gas, we find New Orleans with 5.9 USD/mmbtu and the Netherlands with 4.4 USD/mmbtu, Trinidad in the middle with 1.6 USD/mmbtu and the lowest in the Middle East with 0.5-1 USD/mmbtu according to Yara (2006). The industry in Qatar can probably buy as low as 0.25 USD/mmbtu for the gas tapped unilaterally from a field which partly belongs to Iran.

Historically it is well documented that the absence of competition often leads to inefficient solutions. One example is the transformation of PDVSA from a private like company to a loyal state owned company, a process that has affected its production capacity (still below 3000 mill. barrels a day in production).

Furthermore, it seems like both Venezuela and Bolivia understand they need the technological know-how of the multinational companies. This can be observed in their invitation to take part in *joint ventures*, although keeping control over more than 50 % of the shares. However, state companies risk ending up as a “silent partner”, not contributing in the production, but taking their cut of profits. Such arrangements are hence in reality only a form of taxation, and may be highly inefficient. Another alternative is to let private companies operate on service contracts, i.e. getting paid for specific functions and operations.

### **Regional trade agreements**

Extractable natural resources may not have an immediate effect on regional trade agreements. Commodity prices on oil, minerals, coal etc. are set on the world market and not protected by mayor restrictions. However, natural gas is only flexible if converted to LNG, and it is therefore considered to be a rather fixed point resource, i.e. needed to be consumed close to the source. This implies that trade agreements could play an important role in enhancing contract security in cross-border contracts by setting common institutional standards. However, the US-initiated **Free Trades Agreement of the Americas** (FTAA) approach seems to be on stand-by, and cooperation under the regional own initiative **Mercosur** is not very dynamic. Furthermore, the trade initiative by President Chávez for a **Bolivarian Alternative for Latin America and the Caribbean** (ALBA) has until now only been joined by Bolivia and Cuba. The urgency meeting between presidents Lula, Kirchner, Chávez and Morales in May this year to solve internal issues regarding the Bolivian nationalisation of natural gas confirms the willingness of regional leaders to join forces and cooperate as needed.

### **Increased world competition for natural resources**

Prices on raw materials set new records every day. The price on the mayor raw materials has on average doubled in the two last years.<sup>18</sup> This reflects a harder competition for inputs to industrial production as the world economy grows fast, fuelled by the full scale entry of China and India in the modern market economy. The natural resource based economic boom in Latin America might continue in the future as world growth is expected to continue. Harder competition for products does not only increase market prices, but it also seems to imply a harder competition between multi-national corporations. The entry of companies based in the South disrupts cartel tendencies among Western companies, pressing prices in auctions and open contract bidding. This may have a positive effect and

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<sup>18</sup> Such as gold, platinum, copper, sugar, oil and aluminium. Dagens Næringsliv, May 11, 2006.

for resource owning countries. A South Korean company is for example part owner of the Camisea project in Peru, while the Chinese state oil company CNOOC has shown considerable interest in the region.

The Chinese government has initiated discussions on more long term bilateral trading contracts with Latin America. China is interested in using Chinese capital stemming from their large trading surplus, into mayor investments in the region in exchange for secured deliveries of raw materials in the future.<sup>19</sup> Such bilateral agreements have not yet materialized, probably due to the political risk in long term contracts but also to unrealistic expectations from both sides, i.e. Latin America regard the Chinese as a source for cheap loans, while the Chinese do not want processed products to be part of the deal. The latter discrepancy is possible to overcome in the future, while the former seem to be a returning problem in South America as illustrated by the nationalisation of the petroleum sector in Bolivia and Venezuela.

## **5. An Overview of Regional Organizations**

### **Andean Community of Nations (ACN)**

#### ***Comunidad Andina de Naciones (CAN)***

The Andean Community is formed by the Andean Countries of Bolivia, Colombia, Ecuador, Peru and Venezuela. It originates from the Andean Group, which dates back to 1969. After an initial period of organization, regional integration and cooperation was slowed down in the 1980s, as a result of the economic crisis in the region. In 1989, the Presidents of the Andean Community countries decided to adopt an open model of integration and, setting aside the development agenda, centered their efforts on trade liberalization. As a result, the Andean free trade area was formed and began to operate in 1993, and a common external tariff was adopted in 1995.

The Andean Community has come up against challenges that are both internal (poverty, exclusion, inequality, and social cohesion) and external (international negotiations, multilateralism and multipolarism) in recent years and in order to meet them has approved a new strategic design that establishes the key lines of action for the next few years. This strategic design has three key areas of action: deepening of integration, development and competitiveness, and political cooperation and the social agenda. These areas contain specific actions for moving ahead toward a single market, an Andean territorial development strategy and an Andean strategy for social cohesion.

The Andean Community has experienced a crisis in the last few weeks, following the announcement of Venezuela's withdrawal from the Community. Venezuela had become

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<sup>19</sup> A similar development is taking place in Africa.

increasingly critical of Peru and Colombia's free trade agreements with the United States, considering them as counterproductive for effective regional integration. The situation weakened the joint position of Andean countries in their meeting with the European Union during the LA-EU Summit in May 2006. The dissolution of the Andean Community has been speculated, but that scenario seems unlikely given the extent of regional trade and regional integration – even without Venezuela.

### **Inter-American Development Bank (IADB)**

#### ***Banco Interamericano de Desarrollo (BID)***

The Inter-American Development Bank was established in 1959, and is the oldest and largest regional development bank today. The IDB is the main source of multilateral financing for economic, social and institutional development projects as well as trade and regional integration programs in Latin America and the Caribbean. The Bank assists its borrowing member countries in formulating development policies and provides financing and technical assistance to achieve environmentally sustainable economic growth and increase competitiveness, enhance social equity and fight poverty, modernize the state, and foster free trade and regional integration.

Seven sector strategies guide the Bank's activities. Two of these sector strategies follow the overarching objectives established in the context of the 8th replenishment and the institutional strategy: sustainable economic growth, and poverty reduction and promotion of social equity. The institutional strategy also identifies four areas of competitive advantage for the Bank: social development, modernization of the state, competitiveness and regional integration. The environment, crosscutting in nature, is the focus of the seventh strategy. To complement these seven sector strategies, the IDB gives priority to programs and activities aimed at supporting policy reforms, women, civil society, microenterprise, emergency situations, culture, youth, indigenous peoples, infrastructure, information technology and labor.

IDB operations include investment loans, policy-based loans, private sector loans, Social Entrepreneurship Programs, emergency loans, guarantees, technical cooperation programs, project preparation facilities and grants. The Bank also provides trade financing through its private sector department and investment financing through the Multilateral Investment Fund and the Inter-American Investment Corporation. By the end of 2005, the Bank had approved over USD 137 billion in loans and guarantees to finance projects with investments totalling USD 326 billion, as well as USD 2.1 billion in grants and contingent-recovery technical cooperation financing. Public entities eligible to borrow from the Bank include national, provincial, state and municipal governments, and autonomous public institutions. Civil society organizations and private companies are also eligible.

### **Inter-American Commission of Human Rights (IACHR - Washington)**

#### ***Comisión Interamericana de Derechos Humanos (CIDH)***

The Inter-American Commission on Human Rights (IACHR) is one of two bodies in the inter-American system for the promotion and protection of human rights. The Commission has its headquarters in Washington, D.C. The other human rights body is the Inter-American Court of Human Rights, which is located in San José, Costa Rica. These institutions apply the regional law on human rights, providing recourse to people in the Americas who have suffered violations of their rights by the state and who have been unable to find justice in their own country.

Any person, group of persons or non-governmental organization may present a petition to the Commission alleging violations of the rights protected in the American Convention and/or the American Declaration of Human Rights. The Commission examines petitions and may recommend measures to be carried out by the state to remedy violations. The Commission may only process individual cases where it is alleged that one of the member States of the OAS is responsible for the human rights violation at issue. The Commission applies the Convention to process cases brought against those States which are parties to that instrument.<sup>20</sup> For those States which are not parties, the Commission applies the American Declaration. The Commission also conducts on-site visits to member countries, at their invitation, to analyze and report on the status of human rights. It promotes human rights throughout the hemisphere, focusing attention on specific issues such as freedom of expression, the rights of indigenous peoples and women's rights.

The Commission and the Court have played a vital role in the protection of human rights protection in Latin America, and many of their decisions have set historical and legal precedent. The legal binding of CIDH's decisions has occasionally caused tension with individual national governments, who complain against interference in internal affairs. Most states however, abide with Court's decisions promptly.

### **Common Market of the South (MERCOSUR)**

#### ***Mercado Común del Sur (MERCOSUR)***

MERCOSUR was founded in 1991 as a customs union between Argentina, Brazil, Paraguay and Uruguay. Through a process of regional integration, the consolidation of free trade, and a common trade policy for the region, MERCOSUR aims to create a common market area, that will include the customs union and the free movement of labour and capital. Since 1997 six Latin American countries have joined MERCOSUR as associated members: Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela. Venezuela will become a full member country by the end of 2006. Bolivia has also been invited to join as a full member.

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<sup>20</sup> The American Convention on Human Rights was adopted in 1969. The Convention entered into force in 1978. As of August of 1997, it has been ratified by 25 countries: Argentina, Barbados, Brazil, Bolivia, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

MERCOSUR is undergoing a difficult period, as Paraguay and Uruguay have raised concerns about their effective participation vis-à-vis the larger countries Argentina and Brazil. The smaller countries are seeking alliances with countries outside the organization in order to improve their situation. The inclusion of Venezuela in the near future, and its increasing influence upon other countries in South America, might challenge the cohesion of this regional organization even further.

### **Organization of American States (OAS)**

#### ***Organización de Estados Americanos (OEA)***

The Organization of American States (OAS) brings together the countries of the Western Hemisphere to strengthen cooperation and advance common interests. It is the region's premier forum for multilateral dialogue and concerted action. At the core of the OAS mission is an unequivocal commitment to democracy, as expressed in the Inter-American Democratic Charter: "The peoples of the Americas have a right to democracy and their governments have an obligation to promote and defend it." Building on this foundation, the OAS works to promote good governance, strengthen human rights, foster peace and security, expand trade, and address the complex problems caused by poverty, drugs and corruption. Through decisions made by its political bodies and programs carried out by its General Secretariat, the OAS promotes greater inter-American cooperation and understanding.

Democratically elected Heads of State and Government of the 34 member states meet at high level forums called Summit of the Americas, to discuss and seek solutions on diverse hemispheric issues. The Fourth Summit of the Americas – which took place November 4-5, 2005, in Mar del Plata, Argentina – focused on a broad theme that reflected some of the region's most pressing concerns: "Creating Jobs to Fight Poverty and Strengthen Democratic Governance." The Declaration and Plan of Action of Mar del Plata, adopted at the conclusion of the meeting, affirms the member states' shared goals and commitments, underscoring the importance of sound macroeconomic policies and the central role of the private sector in creating "decent work" and fighting poverty.

Member states recognized "the contribution that economic integration can make to the achievement of the Summit objectives of creating jobs to fight poverty and strengthening democratic governance." However, they were unable to reach consensus regarding the Free Trade Area of the Americas (FTAA) negotiations. Some countries reiterated their commitment to the achievement of a balanced and comprehensive FTAA Agreement and favored an instruction to trade officials "to resume their meetings, during 2006, to examine the difficulties in the FTAA process, in order to overcome them and advance the negotiations within the framework adopted in Miami in November 2003." Other countries maintained "that the necessary conditions are not yet in place for achieving a balanced and equitable free trade agreement with effective access to markets free from subsidies and trade-distorting practices." In the end, the presidents and prime ministers decided that the

final document should reflect both points of view and agreed to explore both positions in light of the outcomes of negotiations held through the World Trade Organization (WTO). The next Summit will take place in Trinidad & Tobago in 2009.

## **6. Conclusions: Common issues and trends in Latin America today**

We conclude this report with some reflections about the current political and socio-economic situation in Latin American following the same methodological framework applied for individual countries: Actors, Issues & dynamics, Natural Resources, and Trends. More than generalizing, our aim is to highlight common issues and trends that can serve as a basis for the identification and formulation of specific recommendations regarding future Norwegian development cooperation with Latin America.

### **Actors**

Of the countries analysed in this report, all are **democratically elected regimes**. Furthermore, with the exception of Colombia, they are all either centre or centre-left governments. It can be useful to consider the current regimes as occupying different positions in the political spectrum moving from right to left, rather “only” right, centre or left. Even in those cases when social agendas diluted on the transition from program to actual government policy (as in Gutiérrez’s government in Ecuador, and Toledo in Peru to some extent), the majority of the regimes keep social programs and anti-poverty policies high on the agenda. Centre-left orientations are also noticeable in policies regarding management of natural resources. The “pink tide” description of the current regimes, rather than “red” seems accurate, as governments maintain an equal emphasis on the need for economic stability and investment to sustain growth. The upcoming elections in Peru, Ecuador, Brazil and Venezuela later this year will most likely reinforce the trend.

Concerning **political parties**, the first thing to be noticed is the limited popular support and structural weakness of traditional parties, particularly conservative parties. In many cases, their constituencies have been extremely reduced. The political party system has been in crisis since the 1980s; new parties and coalitions are formed for every major election. Independent candidates can get away with popular support at the expense of well established political parties. In those cases where socialist parties have succeeded in gaining office (Brazil, Uruguay, Bolivia to some extent), it happened after several failed attempts. While in some countries a united left is yet to be seen (as in Peru and Ecuador), in others a democratic left has started to gain ground in the political scene (as in Colombia). In both cases, the arrival of leftist political parties to presidential offices in the near future is unlikely. This does not imply, however, that leftist-oriented groups such as



the indigenous movement in Ecuador, and possibly the nationalist party in Peru, can win presidential elections sooner than expected.

Regarding **social and popular movements**, Latin American societies show a multiplicity of popular organizations, particular at the local level. But only in a few countries have they managed to form alliances or common platforms to move forward in their struggles and demands (as in Bolivia and Brazil). In our view, it is not the absence of local popular organizations that is limiting the political participation of excluded groups of citizens (poor, women, indigenous groups), but rather the absence or weakness of existing mechanisms for social inclusion and participation, with other organizations as well as vis-à-vis public institutions. Processes of decentralisation which have been implemented in a number of countries are establishing the basis for the participation of local populations and their representatives in local affairs. The challenge is two-fold: to strengthen and institutionalize these mechanisms, and to have local actors capable to formulate demands and assert their citizenship rights.

In some countries, such as Bolivia and Ecuador, **indigenous peoples** and their organizations have played an active role in the political arena in the last decade. They have significant mobilization potential, and enjoy legitimacy and representation among the local population. Together with Peru, these three countries have the largest share of indigenous population in the region. Indigenous movements have proven able to achieve political objectives, particularly when joining forces with other social actors, such as trade unions and grassroots organisations. It is worth noting that, with few exceptions, indigenous groups demands are not only in accordance with the nation-state model, but that their claims are often based on citizenship rights valid for entire nation. Claims for social and political participation need not therefore be in contradiction with indigenous identities. Of course, national context will determine to which extent inclusion and participation is allowed and advanced.

**Women's organisations** are common in Latin America today, either as autonomous groups, or as participants in a variety of social programs implemented by public and private organisations. The advancement of women's rights in some South American countries is a positive development. Several countries have their own ministries for women's affairs and gender equity. Increasing numbers of girls and women have gained access to basic and higher education, just as boys and men do. Social inequality affecting the women's welfare is closely connected to class and income; poor women (and children) are thus a vulnerable group. Women's organisations work intensely for the advancement of poor women's needs and interests.

### **Issues & Dynamics**

In all the countries analysed here, the current regimes have been democratically elected. **Democracy** has made its way though in the region, and in spite of many weaknesses, it is

in the process of consolidation. Presidential, congressional and local elections have become common practice. Electoral participation has increased gradually in the past 20-30 years; the average turn-out for the region is 73%. There are large differences, however, among countries. In Peru, where voting is compulsory, 89% of registered voters participated in the last presidential elections. In Colombia, only 45% of voters used their right to vote. Mistrust in the political party system and public institutions might help explaining low electoral participation in some countries, but only to a certain extent. If democracy is to become the organising principle in society, there is a need for an open and dynamic relation between a state that can guarantee citizenship rights, and a civil society that is both aware and capable of exercising the same rights. There are still challenges ahead before democracy and democratic practices are fully established and institutionalised in South America. People's mistrust to the political system has many sources, such as non-responsiveness to local needs, inefficiency, and corruption. Mistrust diminishes state legitimacy and authority. The challenge is how to make public institutions – both at central and local level – more responsive to citizen's needs. Citizens' participation is vital in this regard, not only in monitoring public institutions but also in setting the agenda for what is the state ought to do.

Similarly, the **rule of law** in South America is still in the making. Corruption and human rights abuses are still part of the daily lives of citizens. In some countries this is linked to crime and illegal activities, such as drug-trafficking in Colombia, Peru and Bolivia. Colombia is the only country experiencing an internal armed conflict, affecting the lives of thousands of people everyday. In Chile, Argentina and Uruguay (and recently Peru), the human rights agenda springs from past experiences of abuses committed during the military dictatorships of the 1970s-80s. There is a need for continuous engagement in human rights issues and civil society organizations active in this field, as a way to fight impunity and strengthen people's trust in justice and respect for human life.

Closely related to democracy and the rule of law, social and political demands for **constitutional reform** and new national constitutions are becoming a widely contested issue. This regional trend was initiated by Venezuela, with the National Constitution of 1999. In Bolivia, the call for a constitutional assembly and a new constitution was one of the main issues in President Morales' electoral campaign. The nationalist candidate in Peru attempted a similar move, without success; while in Ecuador, the indigenous movement has already announced its importance in the electoral agenda. Social movements and political actors are increasingly becoming aware of the potential and strength embedded in national constitutions, not only as a tool for the consolidation of the rule of law, but also to work towards social inclusion and equality.

At the basis for both national policy and popular demands, is social exclusion, or rather, how to fight **social exclusion and poverty**. In spite of increasing economic growth in the past five years in most South American countries, large numbers of the population still live

in poverty. More often than not, poverty is combined with other forms of social exclusion, such as discrimination against indigenous groups. All national governments in the region address this through a variety of social programs, like the *misiones* in Venezuela or *Fome Zero* in Brazil, with different degrees of success. While these initiatives are indeed necessary, governments have increasingly become aware that the unequal distribution of wealth in South American countries lay at the heart of the problem.

Processes of **redistribution** have enormous political and socio-economic implications, and are always strongly contested. These processes can generate support and resistance among local populations, depending on how the reforms affect individual actors. To manage natural resources in a manner that advances a social agenda implies the implementation of democratic practices in the economic organisation of society. Institutionalisation, transparency, accountability and participation are as important and valid here as in the political arena. Few national governments attempt or have sufficient popular support to carry out such reforms. Venezuela is attempting to reform the oil sector; land reform in Brazil is still on the government's waiting list, while in Colombia, it is high on the people's agenda, but not for the government. Claims from local populations to take part of the benefits originating from the exploitation of natural resources are often met with counterarguments based on productivity, efficiency and profit maximization. Norway's historical experience proves the invalidity of such arguments. Natural resources can be managed in a variety of ways that are both efficient *and* advance national and popular demands.

### **Natural Resources**

Most of the countries analysed in this report are rich in natural resources. National economies are thus based in the exploitation, production and export of these resources. This is not necessarily unproblematic. Much of the current debate about natural resource management focuses on oil and gas, not only because of their strategic importance in the global market, but also to their role in achieving national development goals and supporting specific nation-state building projects. State control over PDVSA in Venezuela became to signify independence from traditional power elites. In Bolivia, the nationalisation of the gas industry became a symbol of national sovereignty. Similar processes can be observed with other resources such as copper and gold in other countries. In addition, the effects of extractive activities upon the natural environment and local population living in/around the production sites have to be taken into account.

The current South American regimes are now choosing two different approaches in their management of natural resources. In the first one, the state increases taxation on private companies in a market friendly environment; this would entail more income to the state coffers as long as the system is open and there is real competition between companies. The second approach is to let state companies take care of extractive activities within the sector. This has led to the expropriation of private properties through enforced joint

ventures. Most of the resource rent is then channelled through the state companies. The former solution is possibly more efficient technically, but more difficult to audit for national governments. The latter solution is normally less efficient, yet easier to control by national governments. Both approaches have advantages and disadvantages. Independently of which path is chosen, the most important thing to bear in mind is that national governments act transparently, and with a deep commitment to make natural resources work for the entire population and not only for the elites. The new South American regimes, with strong mandates based on broad popular support can have a chance to take the first steps towards a much needed redistribution of wealth in the region.

### **General Trend**

The South American region is undergoing a process of change. The political orientation of the new regimes is more responsive to popular demands than previous ones precisely because they represent popular sectors of the population. Through formal democracy, these sectors are acquiring political representation. The implications of much needed reforms based in the redistribution of wealth are so comprehensive that they require clear mandates and broad popular support to be implemented. There are many obstacles along the way, such as private interests, political divisions, corruption, and these cannot be underestimated. However, the change of direction of political regimes in the region offers a window of opportunity to initiate a process of structural change in South America. Hopefully, the new governments and the people they represent will live up to the challenge that this historical opportunity offers them.

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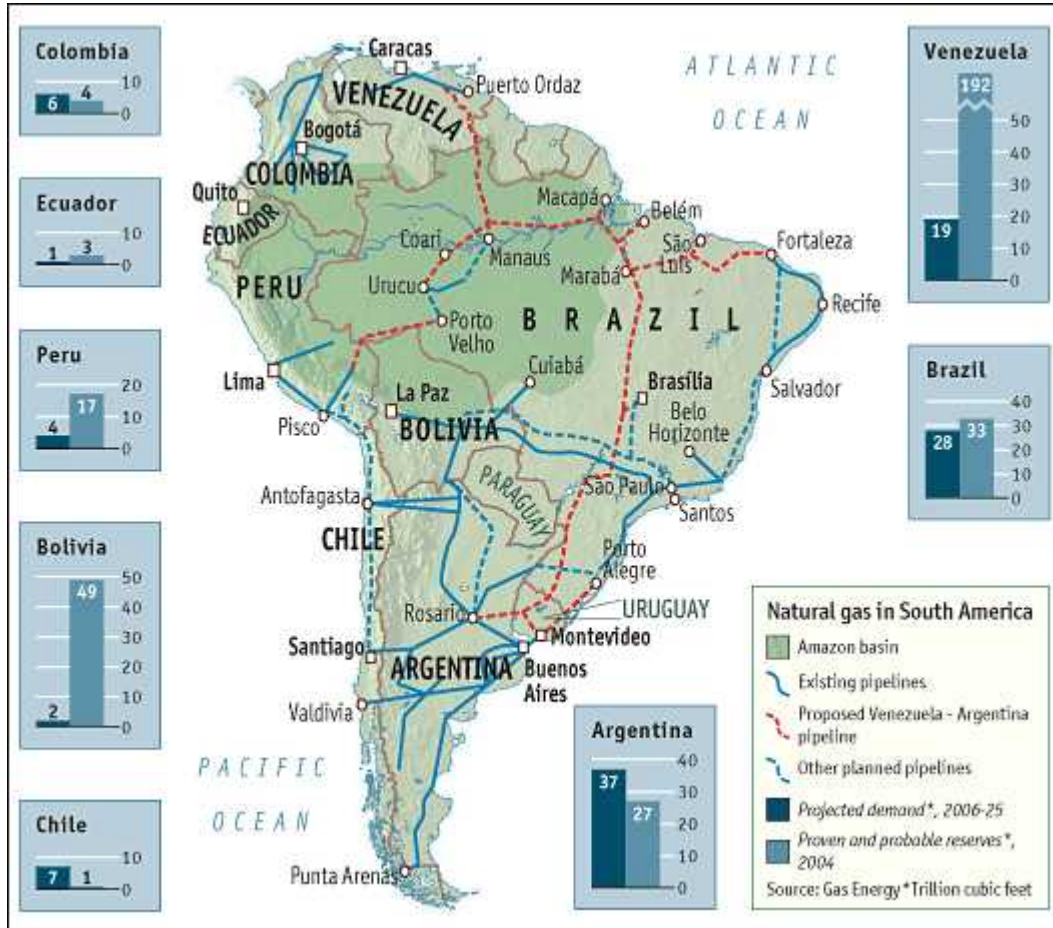
## Abbreviations

AD	Acción Democrática
ALBA	Alternativa Bolivariana para las Américas
AN	Acuerdo Nacional
ANCAP	Administración Nacional de Combustibles, Alcohol y Portland
APRA	Acción Popular Revolucionaria Popular
ARI	Afirmación para una República Igualitaria
ASP	Asamblea por la Soberanía de los Pueblos - Assembly for People's Sovereignty
AUC	Autodefensas Unidas de Colombia
BID	Banco Interamericano de Desarrollo
CAN	Comunidad Andina de Naciones; Andean Community of Nations
CDR	Comités de Defensa de la Revolución
CFTC	Coordinadora de Federaciones del Trópico de Chapare
CIDH	Comisión Interamericana de Derechos Humanos
COB	Central Obrera Boliviana
COFENAE	Confederación de Nacionalidades de la Amazonia Ecuatoriana
COHA	Commission of Hemispheric Affairs
CONAIE	Confederación de Naciones Indígenas de Ecuador
COPEI	Comité de Organización Política Electoral Independiente
CPA	Central de Trabajadores Argentinos
CPT	Comissao Pastoral de Terra
CSUYCB	Confederación Sindical Unica de Trabajadores Campesinos de Bolivia
CTU	Comités de Tierras Urbanas
CUT	Central Única dos Trabalhadores - United Workers Central
ECUARUNARI	Confederación de los Pueblos de Nacionalidad Kichua del Ecuador
ELN	Ejército de Liberación Nacional
FARC	Fuerzas Armadas Revolucionarias de Colombia
FSTMB	Federación Sindical de Trabajadores Mineros de Bolivia
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
GDP	Gross Domestic Product
HROs	Human rights organizations
IACHR	Inter-American Commission of Human Rights
IADB	Inter-American Development Bank
IDPs	Internally displaced people
ILO	International Labour Organisation

IMF	International Monetary Fund
LNG	Liquid natural gas
MAS	Movimiento al Socialismo
MERCOSUR	Mercado Común del Sur - Common Market of the South
mill.	millions
MNC	Multinational Corporation
MNR	Movimiento Nacionalista Revolucionario
MST	Movimento dos Trabalhadores Rurais Sem terra
MVR	Movimiento Quinta República
OAS	Organization of American States
OEA	Organización de Estados Americanos
PANES	Plan de Asistencia Nacional a la Emergencia Social
PDA	Polo Democrático Alternativo
PDVSA	Petróleos de Venezuela S.A.
PFL	Partido do Frente Liberal
PMDB	Partido do Movimento Democrático Brasileiro
PNP	Partido Nacionalista Peruano
PODEMOS	Poder Democrático y Social
PP	Polo Patriótico
PT	Partido dos Trabalhadores - Worker's Party
RN	Renovación Nacional
TCP	Tratado de Comercio de los Pueblos
TLC	Tratado de Libre Comercio
UCR	Unión Cívica Radical - Radical Civic Union
UN	Frente de Unidad Nacional
UN	Unidad Nacional
UN	United Nations
UPP	Unión por el Perú
USA	United States of America
USD	United States Dollar
YPFB	Yacimientos Petrolíferos Fiscales de Bolivia

# Appendixes

Map 1: Existing and planned gas pipelines in South America, 2006



Source: The Economist 11<sup>th</sup> february 2006

**Table 1: Key national figures in 2003**

	Population (millions)	GNI <sup>1</sup> (Bill. US\$)	GNI pr. capita (US\$)	GDP Growth (%)	Poverty <sup>2</sup> (%)	Gov expend <sup>3</sup> (%)
Argentina	38,2	142,3	3720	8,0	3,3	11
Bolivia	9,0	8,7	2040	1,6	14,4	15
Brazil	178,7	552,1	3090	3,9	8,2	20
Chile	16,0	78,4	4910	4,9	2,0	11
Colombia	45,3	90,6	2000	2,3	8,2	14
Ecuador	13,2	28,2	2180	5,0	17,7	12
Peru	27,5	65,0	2360	3,5	18,1	10
Uruguay	3,4	13,4	3950	11,6	2,0	12
Venezuela	26,1	105,0	4020	15,3	9,9	6
Summary	357,4	1083,7	3141	6,2	9,3	12

Source: World Development Report 2005 (World Bank)

<sup>1</sup>Gross National Income

<sup>2</sup>Share of population with less than 1 US\$ PPP a day (2 means <2)

<sup>3</sup>Governmental expenditure as percentage share of GDP, reflex ability to collect taxes

**Table 2: Oil at end 2004<sup>6</sup>**

	Reserves <sup>1</sup> (mill. barr.)	Production <sup>2</sup> (1000 barr/day)	P/R <sup>3</sup> (years)	Share Res <sup>4</sup> (%)	Share Prod <sup>5</sup> (%)
Argentina	2,7	756	10	0,2	1,0
Brasil	11,2	1542	20	0,9	2,0
Colombia	1,5	551	8	0,1	0,7
Ecuador	5,1	535	26	0,4	0,7
Peru	0,9	93	27	0,1	0,1
Venezuela	77,2	2980	71	6,5	4,0

Source: BB Statistical Review of World Energy June 2005

<sup>1</sup> Proven reserve in billion barrels

<sup>2</sup> Production in 1000 barrels a day

<sup>3</sup> Estimated years of future production

<sup>4</sup> Share of world reserves in percent

<sup>5</sup> Share of world production in percent

<sup>6</sup> Includes crude oil, shale oil, oil sands and Natural Gas Liquids and Coal derivatives

**Table 3: Natural Gas in 2004<sup>6</sup>**

	Reserves <sup>1</sup> (mill. barr.)	Production <sup>2</sup> (bill. m <sup>3</sup> /year)	R/P <sup>3</sup> (years)	Share Res <sup>4</sup> (%)	Share Prod <sup>5</sup> (%)
Argentina	0,61	44,9	14	0,3	1,7
Bolivia	0,89	8,5	100	0,5	0,3
Brasil	0,33	11,1	30	0,2	0,4
Colombia	0,11	6,4	17	0,1	0,2
Peru <sup>7</sup>	0,25		100	0,1	
Venezuela	4,22	28,1	100	2,4	1,0

Source: BP Statistical Review of World Energy June 2005

<sup>1</sup> Proven reserves in trillion cubic metres

<sup>2</sup> Production in billion cubic metres a year

<sup>3</sup> Estimated years of future production at current level (100 means more than 100 years)

<sup>4</sup> Share of world reserves in percent

<sup>5</sup> Share of world production in percent

<sup>6</sup> Excluding gas flared or recycled

**Table 4: Coal at end 2004**

	Reserves <sup>1</sup> (mill. MT)	Production <sup>2</sup> (mill. MT oil eq.)	R/P <sup>3</sup> (years)	Share Res <sup>4</sup> (%)	Share Prod <sup>5</sup> (%)
Brasil	10113	1,6	500	1,1	0,1
Colombia	6611	35,8	120	0,7	1,3
Venezuela	479	6,6	500	0,1	0,2

Source: BP Statistical Review of World Energy June 2005

<sup>1</sup> Proven reserves in million metric tonnes

<sup>2</sup> Production in million metric tonnes oil equivalents year

<sup>3</sup> Estimated years of future production at current level (500 means more than 500 years)

<sup>4</sup> Share of world reserves in percent

<sup>5</sup> Share of world production in percent

**Table 5: Primary energy consumption in 2004**

	Oil		Natural gas		Coal		Nuclear		Hydro el.		Total Vol
	Vol <sup>1</sup>	% <sup>2</sup>	Vol	%	Vol	%	Vol	%	Vol	%	
Argentina	18,7	30	34,1	55	0,7	1	1,8	3	6,8	11	62
Brazil	84,2	45	17	9	11,4	6	2,6	1	72,4	39	188
Chile	10,7	42	7,4	29	2,5	10			4,9	19	26
Colombia	10,1	37	5,7	21	2,7	10			8,6	32	27
Ecuador	6,3	79		0		0			1,7	21	8
Peru	7,2	58	0,8	6	0,4	3			4	32	12
Venezuela	26,3	39	25,3	37	0,1	0			16	24	68

Source: BP Statistical Review of World Energy June 2005

<sup>1</sup> Volume is measured in million tonnes oil equivalents for all energy types

<sup>2</sup> Percent of total consumption in the country

<sup>3</sup> "Non-traded" fuels like wood, peat and animal waste is not included

**Table 6: Minerals 1994**

	Value (mill. US\$)	Share of GDP (%)
Argentina	150	<1
Bolivia	450	5-10
Brazil	6000	1-5
Chile	5600	10-25
Colombia	1500	1-5
Ecuador	120	<1
Peru	2120	5-10
Venezuela	800	1-5

Source: World Bank (1996) report

**Table 7: Hydro electricity in 2001**

	Potential (Megawatt)	Production (Megawatt)	Utility <sup>1</sup> (%)
Argentina	44500	9592	22
Bolivia	39850	372	1
Brazil	143380	63275	44
Chile	26046	4131	16
Colombia	93085	8332	9
Ecuador	23467	1758	7
Peru	61832	2965	5
Uruguay	1815	1534	85
Venezuela	50000	13116	26

Source: ECLAC (2004), based on OLADE

<sup>1</sup>Share of potential currently used for production in percent

**Table 8: Public share of the petroleum resource rent, 2002**

	Bolivia		Colombia		Ecuador		Peru	
<b>Oil production</b> <sup>1</sup>	38		578		421		33	
<b>Gas production</b> <sup>2</sup>	952		602		16		68	
<b>Publ. revenues</b> <sup>3</sup>	253	100 %	1202	100 %	2050	100 %	253	100 %
-Royalties	219	87 %	647	54 %			223	88 %
-Taxes	12	5 %	538	45 %			29	11 %
-Others	22	9 %	17	1 %			1	0 %
<b>Spending</b>	253	100 %	1202	100 %	2050	100 %	253	100 %
-Central governm.	145	57 %	540	45 %	1555	76 %	143	57 %
-Decentralized	100	40 %	468	39 %	71	3 %	104	41 %
-Others	8	3 %	194	16 %	424	21 %	6	2 %

Source: WB (2005), table in Annex 4, p. 133

<sup>1</sup>Million Barrels a day, with exception of Peru where the unit is

<sup>2</sup>MMPCD

<sup>3</sup>US\$