



## THE BEGINNING OF THE END IN VENEZUELA

Chávez has been forced to accept, in a clearly angry state, that Venezuelans did not want to turn their country into a totalitarian dictatorship. The election results in Venezuela may influence the other countries of what we could call the chavista axis, particularly Bolivia.

## A REGION IN SEARCH OF ITS DESTINY

Beyond the threat of authoritarian populisms, Latin America's problem is that it is not fully taking advantage of the favorable economic juncture it faces. Meanwhile, the emphasis its leaders place on redistributing wealth before creating it, impatience over the inequalities between its inhabitants and the instability -or more exactly unpredictability- of its political destinies stop investments from flourishing adequately and hamper growth.

By **Carlos Sabino**

*Latin American TRENDS seeks to offer readers a balanced panorama of reality in our region: as a biannual report, it is not a typical juncture analysis –since it transcends the immediate in order to identify trends that extend beyond the daily news. However, this does not imply moving to the other extreme: a purely abstract reflection, disinterested in the various events of the region. This balance also refers to the subjects and events that will be underlined: the proposal is to link economics with politics and social affairs. The information featured here will not be limited to a specific group of countries, but it will also cover events that, on occasion, may pass unnoticed.*



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The many events seen in Latin America during the second semester of 2007 offer a panorama of a region involved in severe political crises, while at the same time the economy prospers in a very favorable way. Let us begin then with considering the most relevant events of the past six months.

### **1. The end of the beginning**

In 1942, after defeating Rommel's forces in North Africa, Winston Churchill said that victory was not the end –not even the beginning of the end-, but that it could be considered *the end of the beginning*.

The phrase, which echoes distant battles, seems appropriate in describing what happened in **Venezuela** last December 2<sup>nd</sup>.

For the first time, Chávez has admitted to losing an election. It is true that the presidency was not at stake, and that his mandate covers an ample period that reaches the year 2013.

It is true that the constitutional reforms defeated in the referendum may still be applied through different channels, something which will surely be attempted in the next months.

Additionally, it does not seem realistic to think the Venezuelan strongman will ever leave power so gently only because a certain proportion of voters rejected him. Both his personal history and the political-military apparatus he has built make him inclined to resist -through violent means- any peaceful attempt to remove him from power. Yet something deep may be changing in Venezuela, something that has more to do with the dynamic of battles and wars than with the proper counting of ballots.

Firstly, Hugo Chávez's invincibility myth is over. He has been forced to accept, in a clearly angry state, that Venezuelans did not want to turn their country into a totalitarian dictatorship. Secondly, and this might be more important, because his reluctant recognition of facts was a result of strong pressure exerted against his attempt to impose a new

Constitution. Hundreds of thousands of students in the streets have proved Chávez did not have the support he claimed to rally. Statements made by his ex-wife and General Raúl Isaías Baduel -who has openly opposed the constitutional reform and who doubtlessly represents a significant proportion of high-ranking military officers-, joined those massive expressions of rejection. However, Baduel did something more. On the day of the election, he contributed decisively to calling for the results to be respected, by speaking publicly and privately in favor of respecting the public's will. It must be taken into account that the general, who is now retired, is a key figure in the Venezuelan political arena. While generally favorable towards *chavismo*, he managed to return Chávez to power in 2002, after his abrupt resignation. He thus positioned himself as a fundamental figure in the Armed Forces, occupying high postings and reaching the rank of Minister of Defense until recent months. The night of the election, in the face of Chávez's reluctance in accepting an unfavorable result, the top brass allegedly told him a very conflictive situation might arise, with massive protests and demonstrations. The Army was unwilling to repress them.

For any democratic politician –like Churchill himself-, a defeat may simply be another experience in a long career, complex and full of obstacles in the always-changing terrain of politics. Characters like Chávez do not see it that way. To them there are no partial defeats and the game of politics is simply a merciless war, where all power is decided in each battle. Chávez, for the first time, has had to stop his hallucinated race towards absolute power, in **Venezuela** and in the continent. He now finds himself in a risky position, although he is not completely vulnerable.

If Chávez stops and agrees to follow a more moderate course, as his country demands, his power may rapidly erode. He would have to face a growing, strengthened opposition,

which has more confidence in itself and is emerging from a years-old lethargy. If, on the other hand, he keeps on pressuring in favor of his goals –as we believe he will-, he may find himself facing new and more devastating failures, until he loses power completely. It is difficult to determine what will happen to his regime in the short term, but 2008 will most likely turn out to be a complex and conflictive year for **Venezuela**. Tensions may reach their zenith at year's end, when partial elections for governors and mayors will be held.

Chávez's failure may also be important to other countries, particularly **Bolivia**. Following the same strong-armed strategy as his Venezuelan mentor, Evo Morales – President of the Andean nation- has decided to approve a new Constitution. Few details have been published, except for the fact that it introduces re-election to the presidency. A simple majority in a military installation had it approved, with no input from the opposition. Morales' party, MAS, now intends to flaunt its scant majority to impose the new basic law -which is strongly rejected by his adversaries, particularly in provinces east of the country. All of this in open violation of the norms by which the constitutive assembly convened. The terms required the approval of the new Constitution to require a two-thirds majority.

With the new Constitution approved in such a scantily transparent way, 4 of Bolivia's 9 departments (provinces) have rushed to approve their autonomy statutes. This resulted in an institutional rupture of unpredictable consequences. The situation, at the time these lines were written, is not clear at all. It is apparently headed towards open conflict, as if none of the sides had the least intention to give in.

The Eastern departments, now joined by almost all others in the country, are unwilling to accept Morales' Constitution. He completely rejects autonomy for departments opposed to the government, since he intends to concentrate power in his hands.

An agreement may be reached at the last hour, or the conflict might be left to action in the streets: it cannot be known in any case. What is certain is that the Bolivarian project has taken the country to a profound political crisis, perhaps the greatest in its existence. **Bolivia** will no doubt go through very

conflictive situations in the coming months. They may consolidate Morales in power or unseat him definitely. It may engage in a civil war and even split into two states. Such a scenario would result in a confrontation that may draw in several countries from the region: **Venezuela, Brazil, Chile, Peru** and **Argentina** probably won't remain at the sidelines. What is certain is that an internally weakened Chávez will not have his hands as free to intervene in the Andean country as he wished.

The electoral results may also affect other countries of what could be called the *chavista* axis. As long as the ambiguous situation created by Fidel Castro's ailment persists, the Communist power clique in **Cuba** will have to objectively evaluate the quality and quantity of the support the Venezuelan strongman may lend them. While pressures to open the regime are in the rise there, another country in the axis, **Nicaragua**, has become increasingly complicated for Sandinista Daniel Ortega.

It is widely known that Ortega won the 2006 elections thanks to PLC (Partido Liberal Constitucionalista, a faction of the old Partido Liberal which supports corruption-accused former President Alemán) support. An alliance between both political forces has managed to control Congress against the two opposing parties: Alianza Liberal and the Movimiento de Renovación Sandinista (MRS). However, Ortega's attempt to create Consejos de Poder Ciudadano (CPCs, Citizens' Power Councils) has produced an important crack in the midst of the government coalition. According to observers, the councils too closely resemble the famous Comités Sandinistas that blanketed the country during the period when Ortega and the Sandinistas attempted to implement an authoritarian Socialist model in the country (1979-91). There is now a legal battle around these organizations, while the mood turns more conflictive in the country. The MRS has even proposed declaring Ortega insane and unfit to govern. That proposal would count with a significant number of votes in Congress: it would only take two Sandinista representatives crossing the aisle for that decisive resolution to prosper.

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elected in September, has gathered there. President Rafael Correa has a majority of supporters there: eighty of its 130 representatives back the Ecuadorian leader, which represents 61.5% of the seats – slightly less than two thirds of the total. The assembly, following the model that worked in Venezuela, has assumed almost absolute powers. Meanwhile, Parliament remains in recess.

Thus, Correa has his hands free to consolidate power.

There are however some indications, still in gestation, that the Ecuadorian might adopt a more moderate course than his Venezuelan counterpart. Correa has for the moment rejected Ecuador adopting the "21<sup>st</sup> century socialism" model Chávez tried to impose in Venezuela. He has also rejected other extremist positions, such as unlimited re-elections to the presidency. However, the mood remains tense. A drastic tax reform, proposed by the President's supporters, has generated deep misgivings among the entrepreneurial classes. They might reach the point where local capital stampedes overseas, in an attempt to escape interventionist measures by the regime consolidating in the country.

In short, all countries presently following the Chávez-inspired model of Bolivarian Socialism in one way or the other are facing political crises of varying magnitudes. Venezuela is witnessing the rebirth of the opposition in the midst of an economic situation that, despite the oil bonanza, causes the population great distress. There is persisting inflation and a pronounced lack of basic goods. Bolivia is at the edge of the abyss. It is sinking deeper into internal divisions.

Something similar may soon occur in Nicaragua. Meanwhile, the authoritarian Socialist model consolidated through the decades in Cuba will doubtlessly face severe changes, as soon as the septuagenarian dictator's days are over. For now, Ecuador seems to be escaping this conflictive destiny, even though it is too soon to ascertain Correa's plans will not spark growing resistance. In the end, all this seems fairly natural: when absolute power is reached – in politics and in the economy –, there will be inevitable confrontations, and the atmosphere of conflict will expand. It is inevitable: every ruler aspiring to dictatorship will face, sooner

or later, the persistent opposition of those who are trying to defend their liberties and keep the democratic game open.

## 2. The "silent" majority

We have focused our attention on the more conflictive points of Latin America. The obvious reason is that it is there that events more widely covered by the media and political analysts happen. However, the reader should not assume the entire region is submerged in conflicts that render it ungovernable. Quite on the contrary: it is fair to remember in these pages that most of our countries are now in relative calm. They are experiencing a period of excellent economic growth that may still last for longer. Let us then review what is happening in the rest of Latin America.

On October 28<sup>th</sup>, Argentina celebrated a general election. It was won by President Néstor Kirchner's wife, Cristina Fernández de Kirchner, with 45% of the vote. Even though the River Plate nation has allowed immediate re-elections since the last years of the past century, President Kirchner opted for this not-too-subtle method to remain in power. In fact, to our judgment, it defines how little appreciation for Republican values these officials have, something which had already been proved during the four years when the current President's husband governed. Senator Fernández was triumphant against a divided opposition, which is struggling amongst constant transfers of allegiance of its parties and main figures. It was a scenario in which all traditional parties seemed on the brink of collapse.

However, Cristina Fernández's victory has been overshadowed in the last few weeks. The incident in which a person linked to Chávez's government attempted to smuggle a suitcase with USD 800.000 in it into the country has provoked a minor international crisis. It is alleged that the money from the oil-producing country was destined to the current President's electoral campaign. The accused man's own statements in a Miami court claim so. The same man has accused employees of Chávez's government of threatening him so that he would hide the money's origins. The Argentinean government has reacted in a very undiplomatic way, by accusing the United States of concocting a

conspiracy against it and thus engaging in a confrontational course that will yield very few positive results. In that way, the new President aligns herself with Chávez and his bloc, at least in foreign policy. It is a high-stakes game; the results are currently too difficult to evaluate. It is not the same attitude adopted by President Lula of **Brazil**. That nation, aspiring to a world power role and whose economic growth seems solid and well-founded, is still playing the patience card. Brazil has not broken its ties to Chávez and his followers, but it has been careful not to align itself with their policies, while taking distance from their anti-imperialistic rhetoric. Brazil is trying to consolidate MERCOSUR as an integration zone which, although slightly lax in its enforcement, will allow it to negotiate as a block with the United States and the European Union. Recent discoveries of gigantic oilfields in its continental platform feed visions of grandeur of what has been, for several years, the region's main economy and the world's tenth-largest. Under the Bachelet Presidency, **Chile** has leaned slightly more to the left than in previous years. That has not meant an approximation to the methods or the model proposed by *chavismo*. The same is happening in **Uruguay** and **Costa Rica**, as well as in other nations. **Guatemala**, where a national election was held, saw the election of Álvaro Colom to the presidency. Colom is a moderate leftist who will take office next January, but who has already distanced himself from Chávez's followers. To many observers who do not know the country well, the surprise in these elections was the trouncing suffered by indigenous candidate Rigoberta Menchú. She obtained barely 3% of the vote, and her supporters were even less numerous in areas where the country's indigenous and peasant majority lives.

**Mexico**, **Colombia** and **Peru** face different problems, but are also making progress in a course fairly distant from that marked by the aggressive populisms analyzed in the first part of this report. In the first of these countries, still influenced by the problem of restrictions to immigration to the United States, populist leader López Obrador seems to be losing strength. Meanwhile, his party—the PRD—, is distancing itself from his increasingly violent and confrontational statements. **Colombia** is still facing the tough conflict it has with the

FARC guerrilla. Even though it has lost all support as a political force, it still gets the support of Chávez and keeps hundreds of people as hostages. The FARC, who keep these people in inhuman conditions, try to use them as political, and particularly economic, pawns. With Hugo Chávez's mediating attempt in tatters -thanks to mutual recriminations-, this task is now being undertaken by different actors through different channels.

**Peru** has found a balanced leader in Alan García. His policies try to capitalize on the economy's strong growth in his favor. Ollanta Humala, the Chávez-following opposition candidate who narrowly lost the past election, still has some support in the public, particularly in rural areas. However, the country seems to have sustained itself in the moderate part of political discourse. There is clear conscience in the populace of the back step it would be for the country to return to State-directed policies implemented at different times by both Velasco Alvarado and Alan García himself.

The only country in the region which might move closer to Chávez's radical populist bloc during 2008 is **Paraguay**. The next elections, which will take place in April, present a complex outlook. There are very diverse candidates in origin and political orientation. The Colorado Party, which has been in power for 60 years, has chosen a figure linked to the current government as its candidate: former Minister Blanca Ovelar. At the time these lines were written, her candidacy is still unconfirmed. The results of the party's primary elections were still not known with certainty. Competing against her is former bishop Fernando Lugo, who is supported by a coalition of parties and opposition groups. His rhetoric doubtlessly approximates him to Chávez and to General Lino Oviedo, who attempted a *coup d'état* in 1996. Oviedo was in prison, but the Supreme Court recently annulled his sentence. The general—always favorable to **Brazil's** leadership in the region—seems for now an alternative to a barely charismatic government candidate and the fear-inducing bishop Lugo.

### 3. A region in search of its destiny

After the partial analyses we have made in the two preceding sections, we may now

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attempt a synthesis of the global panorama in the region. It is not an exaggeration to say there is a climate of political pugnacity unraveling in the region, yet it happens in the context of a very favorable economic situation.

The dispute we are talking about is fundamentally due to the expansive pressure exerted by nations following Hugo Chávez's confrontational style and leadership. The President of **Venezuela** now faces, for the first time in six years, a complex situation and a step back in his aspirations after the results of the December 2 referendum. In spite of the unrest that may be seen today in **Venezuela, Bolivia** and **Nicaragua**, we must make an effort to place these facts in due perspective. These three countries, to which we must add two more –**Cuba** and **Ecuador**–, are nothing more than a small group within this region, if it is taken as a whole. Their total population barely tops 65 million people, slightly less than half of **Mexico's**, barely a third of **Brazil's** and less than 12% of the region's total. Their economies, even adding Venezuela's oil income, reach a GDP of only 165 billion dollars, measured in year-2000 dollars. Given a wider margin due to difficulty in measuring the Cuban economy, it may be rounded to 185 billion. This figure is certainly an acute contrast to the 2 trillion dollars in the rest of the region. It thus becomes barely 8.5% of the total.

These figures are useful in not losing sight of an important fact: how limited the confrontations resulting from the expansion of new Chávez-inspired authoritarian populisms in the context of all Latin America really are. Only a very limited group of small and medium-sized countries is going through situations where the principles of liberal democracy are being questioned, and may succumb to socialist dictatorships. That does not mean there are no perils to the rest of the region, even though in some cases which may still not be discounted, conflicts might spread to some form of general violence. It could happen, for example, if **Bolivia** came to an open confrontation, with the possible secession of four or five of its nine departments. The situation may take a turn for the worse if Cristina Kirchner's government decided to integrate **Argentina**

more to the aforementioned bloc of nations. It could also happen if bishop Lugo were elected in **Paraguay**.

However, more than the threat of authoritarian populist regimes, Latin America's problem is that it is not fully seizing the favorable economic juncture it faces. Its leaders place their emphasis on redistributing wealth before they generate it. Their impatience towards inequalities in income amongst their citizens and instability –or more precisely, unpredictability– of their political destinies impedes investments from flourishing and growth to be slowed down. The region's performance is good, but as we will see ahead, it is still a far cry from what the most important nations of Asia are displaying.

#### 4. The economic boom

The region's economy will have grown approximately 5.6% during 2007. This is an important figure. It is clearly bigger than population growth, which guarantees there will also be a visible rise in goods and services available to each citizen. **Panama, Argentina, Venezuela** and **Peru** are the countries with the best economic performance. **Nicaragua** and **Ecuador** turned out to be the ones farthest behind in economic progress. A slightly better economic growth is expected for 2008. Conditions in world markets may still last a few more years, fed by intense demands for commodities by emerging nations.

Additionally, foreign investment is still on the rise. There was an intake of 102.6 billion dollars in 2006, which is a stark contrast to the meager 40 billion of the preceding year. 2007 is expected to have performed far better than 2006, which would contribute to the excellent GDP growth rates.

On the other hand, during this semester there have been clear step towards increasing trade and integration. With the failure of the "Initiative for the Americas", which proposed a region-wide common market called the FTAA, progress has been made in enlarging and implementing bilateral trade agreements. New free trade agreements (FTAs) have been signed; although at times they seem limited, they are useful in partly improving the flow of goods and capital within the Americas and with the rest of the world.

Therefore, it is noteworthy that **Costa Rica**

approved its membership of CAFTA -which includes all Central American nations plus the United States and the **Dominican Republic**-, in a referendum held on October 7<sup>th</sup>. The margin was relatively narrow (51.6% v. 48.4%), but it put to rest many pundits' expectations of the treaty being rejected. Central America is therefore fully integrated in this new initiative, which was strengthened by the FTA signed by **Colombia, El Salvador, Guatemala and Honduras** during the same period. There are currently talks taking place with the European Union too.

Other two similar treaties have recently been signed in the region. **Chile** and Japan agreed to an FTA in September. Consequently, the Andean country is now linked to all the main global economies, while **Peru** and the United States finally approved their FTA in December. This has certainly been the most relevant event of all that took place in this area during the year. It is not only due to its economic significance, but to the fact that it proves there is willingness in the American government to persist with opening towards the South – in an obviously difficult context for President George W. Bush.

More concretely, with a Congress not under his control and considerable rejection on the part of the Democratic Party -particularly from unions and lobbyists dealing with environmental issues-, the House of Representatives at last passed the free trade agreement with **Peru**. It did so with a wide margin: 285 to 132 representatives. The confirmatory vote in the Senate was even more solid: 77 votes to 18. President Bush has supported this agreement since early December. The FTA may considerably increase trade between the two nations – particularly in a moment in which Peru's agricultural and mining exports are growing healthily.

However, the most important factor is another one. The ample margins seen in the approval of the Peru treaty raise confidence in expectations that the rest of the FTAs will overcome the tough battles they face in the American Congress. That would include two favoring nations from the continent –**Panama** and **Colombia**- and South Korea. It appears there are not too many difficulties in regard to the **Panama** treaty, which would complete the list of the Central American Isthmus

countries. However, the **Colombia** agreement will be a longer shot. The main obstacle is the left wing of the Democratic Party, which rejects Uribe's efforts to fight the FARC narco-guerrillas and accuses him of certain alleged human rights abuses. However, there are many congressmen who recognize the enormous value of a commercial alliance with **Colombia**, a firm ally of the United States in the war on drugs and an indispensable counterweight to the actions of neighboring Venezuela. A rejection of the FTA might awaken obvious misgivings amongst a majority of Colombians and an intense political debilitation of President Uribe. To sum up, we believe the American Congress will pass the agreement by a small margin, since that country's executive can push its strategic reasons against the rejection of unions and leftist and environmentalist groups.

There are two more factors to underline in the economic arena. The first, which is negative, is the relative rebirth of inflation. This is a frequent phenomenon in times of accelerated growth, but it is nonetheless damaging to the economy and society, since it stimulates an unequal distribution of wealth like few others. It is not a coincidence that the most worrying signs are being seen in populist **Venezuela**, with an inflation of close to 20%, as well as **Argentina** and **Bolivia**. However, figures in **Brazil** and **Chile** have also shot up, as well as in **Guatemala** and other Central American countries. Since the problem is still manageable in these and other nations, we shall leave a full analysis of this issue for another time. It is worth pointing out that the phenomenon is happening, in good measure, due to insistence in raising government spending, supposedly for social purposes.

The other point to highlight is the successful sale by the Colombian government of part of its stock in government oil company Ecopetrol. **Colombia** issued a sale of 10% of its equity in that firm. It found a very encouraging response in the public, which thronged to purchase that stock. More than 320.000 people did so immediately. The value of the stock rose due to strong demand, to the point of duplication in a few hours. The case proves that, in proper conditions, privatizing a state-owned company may have

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an unexpected success among the public. That contributes to strengthening capital markets, reducing the State's role in the economy and politically stabilizing nations who do so.

### 5. The future

This year that is just beginning once again beckons positive economic conditions and complicated political signs. Although the American economy may grow at a slower pace, which would drag China and other countries also towards slowing down, the most likely course is continuity in fair rates of general growth and high commodity prices. Most international organizations and observers now predict average growth in the region will be between 4 and 5%.

In order to progress at a faster rate, countries in the region should make opening new companies easier, control public expenditures and try to reduce –not expand- government's weight in their economies. Continuing with the process of privatizations –practically at a halt during this century- is of paramount importance. Advancing in deregulating labor markets should be another goal. These are so rigid that they stimulate the existence of huge informal areas of the economy. In many countries, these take up almost half of the economically active population. However, we are not predicting important steps in this direction, except perhaps in **Peru** and **Colombia**, where there might be more receptiveness towards those ideas.

The political outlook is, on the other hand, very complicated. With *chavismo* wounded in its attempt to consolidate a dictatorship in Venezuela, and with open conflicts in **Bolivia** and **Nicaragua**, it is very likely that during 2008 we will witness serious and possibly violent confrontations. Tensions in Ecuador might also increase: it is following the same path as **Venezuela**, but Correa still has ample popular support. **Paraguay** might do so too, considering its complicated election in April. Those conflicts might spread in a very

dangerous way if there is no negotiated solution in **Bolivia**, where more than half of the country has been pushed towards separatism and the possibility of neighboring countries' intervention in the conflict.

It is very possible that 2008 will turn out to be decisive for those who intend to expand authoritarian populism in the region. We do not think Chávez can spend a quiet year, since it is likely the opposition will reorganize and take the streets to stop the strongman from taking away all vestiges of liberty and democracy in the country. The delicate economic situation **Venezuela** faces, with high inflation and scarcity of goods, all in spite of the stratospheric prices of oil, forebode a year laced with difficulties for Chávez. It will also be difficult for the axis he leads to come out unscathed of all the remaining challenges in **Bolivia**, **Nicaragua** and also **Cuba**, where a transition might begin at any moment. The same applies to **Ecuador**. This is why we think, as we were saying at the beginning of this issue of *Trends*, that we are at the “end of the beginning”. This is the moment where the authoritarian axis is at its largest extension. An uncertain period begins now. The axis may have both successes and failures. In any case, it will prove the region does not accept its policies and only shares, in most cases, its controversial rhetoric. However, many rulers of the mentioned countries might opt for the path of confrontation and, if necessary, of opening the gates of raging violence – rather than caving in.

la impaciencia ante las desigualdades del ingreso entre sus habitantes y la inestabilidad o, más exactamente, lo imprevisible de sus rumbos políticos, hacen que las inversiones no fructifiquen del modo adecuado y que el crecimiento se retarde. El desempeño de la región es bueno, como veremos seguidamente, pero todavía bastante alejado del que muestran varias importantes naciones de Asia.

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