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HIGHLIGHTS

- Political Developments
- Economic Developments
- FOCUS India-LAC

Political Developments

On 17 December, in the second round of voting, **Chile** re-elected conservative former President Sebastian Piñera (2010-2014) to succeed Michelle Bachelet. Piñera got 54.57 percent of the vote to 45.43 percent for his centre-left opponent Alejandro Guillier, the ruling coalition candidate. Politically stable Chile has focused on economic and social reform. President Bachelet, whose Broad Front coalition included the communists, passed progressive but controversial legislation on education and taxation. Piñera will contend with a divided Congress and an electorate looking for economic stimulation as well as social justice.

After the 26 November presidential election **Honduras** was wracked by riots. The opposition Alliance against the Dictatorship candidate Salvador Nasralla took an early lead but on 17 December, after a controversial recount, 49-year-old sitting President Juan Orlando Hernandez, of the governing National Party, was declared re-elected with 42.98 percent of the vote, against 41.39 percent for the journalist and TV personality. Given the 'accumulation of irregularities and serious deficiencies, which have surely affected the electoral result' recorded by the observer mission, the Secretary General of the Organisation of American States refused to endorse the election and called for 'fresh general elections within the framework of strict respect for the rule of law'. Nasralla was backed by Manuel Zelaya, a former left wing president deposed in a coup in 2009. Right wing, pro-US Hernandez was allowed to run for re-election by a Supreme Court decree in 2015. The alleged motive for the deposition of Zelaya - who wanted to steer Honduras towards Cuba and Venezuela before he was deposed by the military in 2009 - was that he tried to change the constitution to allow re-election! Honduras, with a population of 9 million, has major problems of homicide, crime gangs, narco-traffic and illegal immigration. It is also on the frontline of a power game in the region and a member of the Alliance for Progress - along with Guatemala and El Salvador - which receives US funding to counter organized crime, migration and narcotics. The US is wary of Russia's military and economic cooperation with Nicaragua, and China's economic expansion in Central America.

The strategic divide over **Venezuela** between Russia and China on the one hand, and the US and EU on the other, sharpened with the former (joined by Egypt and Bolivia) refusing to attend a US organised informal meeting of the UN Security Council on 13 November to debate the situation there, claiming this would be 'meddling in the internal domestic affairs of Venezuela'. Russia also agreed to restructure Venezuela's debt of \$3.15 billion over a 10 year period with minimal payments over the first six years. EU Foreign Ministers agreed on a travel ban and assets freeze on targeted Venezuelan officials, embargo on sale of arms and instruments of lethal repression. Canada joined the fray with Caracas and Ottawa expelling ambassadors simultaneously in December. Chinese hydrocarbons major Sinopec, in an unusual move, filed a suit in a US court against Venezuela's national oil company PdVSA for \$43.5 million against

supplies in 2013, indicating a growing impatience with the current establishment, which is wooing \$14 billion of Chinese investment in the hydrocarbons sector.

Relations with **Israel** were in focus with the decision by **Guatemala** to move its embassy to Jerusalem. Seen as a cynical move by President Jimmy Morales to divert attention from allegations of corruption, it was significant for Israel, which has built support steadily in the region. Guatemala and Honduras voted against the UNGA resolution condemning Trump's move to shift the US embassy to Jerusalem; Argentina, Mexico, Jamaica and the Dominican Republic abstained.

On 25 December President Pedro Pablo Kuczynski of **Peru** pardoned former President Alberto Fujimori, sentenced in 2005 to 25 years for crimes against humanity. Days earlier Kuczynski had narrowly survived a no-confidence motion in Parliament over alleged corrupt dealings with Brazil's Odebrecht. The motion was defeated thanks to the abstention by 10 parliamentarians led by Fujimori's youngest son, Kenji.

Economic Developments

Venezuela's President Nicolas Maduro announced on 2 November that all external debt would be 'restructured'. Venezuela has been in crisis since 2015 when oil prices fell, and has built up enormous debt of US\$ 66 billion. PdVSA managed to pay \$1.21 billion to its bondholders, postponing an expected default. Maduro blamed the 'global financial dictatorship' and the political opposition which instigated discriminatory measures against Venezuela. In August, the US imposed financial sanctions, inter alia prohibiting US banks from negotiating with Venezuela. The commission appointed to renegotiate the debt is headed by the Vice President, Tareck al Aissami, and includes the Finance Minister, Simon Zerpa, both under US sanctions themselves. According to JP Morgan's EMBI Global Diversified Index, Venezuelan bonds yield nearly double the spread on bonds issued by Mozambique, which is already in default, and more than six times the spread on bonds from war-torn Ukraine. After an initial meeting with bondholders on 10 November, which the Venezuelan government declared a success, but which those present claimed was a diatribe against the US and a statement of Venezuela's inability to repay on time, ratings agencies declared Venezuelan government and PdVSA in default.

Venezuela's Central Bank has not published official figures since 2015. Hyperinflation and constant devaluation of its currency have led to incredible daily hardship. Maduro recently released a currency note of 100,000 Bolivars - worth about \$2.7 at the market rate. He has increased the minimum wage seven times in 2017, most recently by 40 percent on 31 December, scoring a 600 percent increase over the past year, while accumulated inflation stood at 2735 percent, according to analysts. The UN Economic Commission for Latin America and the Caribbean (ECLAC), has calculated that since 2013 Venezuela's economy shrank by 31.9 percent. In 2016 GDP fell 16.5 percent (admitted by the government) and in 2018 may drop 5.5 percent.

On 3 December Maduro announced the launch of the **Petro**, a cryptocurrency "backed by Venezuelan reserve wealth in gold, petroleum, gas and diamonds." The Petro would be managed by a Venezuelan 'blockchain' observatory. A blockchain is a continuously growing list of records, called blocks, which can tabulate transactions between two parties in a verifiable, unalterable and permanent way. It was created by the shadowy inventors of the Bitcoin, the most well-known cryptocurrency that appeared in 2009. The Petro would allow direct transactions between users, without intermediaries, which are - and remain - registered in a public data base. If successfully managed, it may help Venezuela overcome its hard currency shortage that has forced it to renegotiate its multi-billion dollar debt.

China's economic penetration of LAC continues apace. In November, the southern Chinese city of Zhuhai held the first **China-Latin America & Caribbean** International Exposition, with some 250 LAC enterprises. This was followed in early December by a China-LAC business summit in Uruguay, which brought together over 600 Chinese companies and twice that number from LAC. China has also made informal soundings to the region on the Maritime Silk Road, considering Mexico and Panama "critical nodes" in the BRI's "natural extension." A recent Joint Communiqué between Argentina and China also refers to the BRI. There is a liaison office of the China-Latin America Business Council, a non-profit "cooperative mechanism" established in 2012, and the Hengqin China-LAC Economic and Trade

Cooperation Park, a 2.5 billion yuan (\$378 million) venture to provide legal aid, policy research, trade facilitation and e-commerce services to Latin American investors. LAC agro-industry is gearing up to supply China's markets.

Focus India-LAC

Colombia's Foreign Minister, Maria Angela Holguin visited India 6-9 November, along with Colombia's Commerce Minister. They met India's External Affairs and Commerce Ministers. India's trade with Colombia – a member of the market-friendly Pacific Alliance along with Mexico, Peru and Chile - has been erratic. India principal import - crude oil - has dropped from \$1.77 billion in 2014-15 to \$273 million in 2016-17. Exports fell to \$785 million in 2016-17, from \$900 million the year before, but may pick up. Indian companies are present in automobiles, hydrocarbons, pharma, chemicals, software and other sectors. The Colombian side reciprocated India's earlier interest in a preferential tariff agreement. India's Department of Commerce is working on a new template which may include services.

The "**lithium triangle**" of **Chile, Argentina and Bolivia** could become a focus, according to analysts. The National Institute for Transformation of India (NITI Aayog), in a report on Indian Energy Storage Mission, claims "to achieve large-scale domestic production of EVs (electric vehicles), India will need to forge international partnerships and joint ventures (JVs) to secure access to key materials in line with its own battery making technology and roadmap..." JV's with these countries and long-term supply contracts for lithium at concessional rates could be a way forward. China is already moving in that direction.

Venezuela's PdVSA has not made debt payments to India's ONGC (Videsh) Ltd (OVL) for six months on a US\$ 540 million backlog of dividend payments. ONGC's Mangalore refinery is unable to process Venezuela's heavy crude, so it cannot take delivery of the oil produced by its joint venture with PdVSA. Reliance Industries Ltd, which buys millions of barrels of Venezuelan oil, reportedly paid OVL US\$ 68.66 million on behalf of PdVSA in April 2017. OVL is reluctant to walk away from the largest oil reserves worldwide and is even considering more investment in the joint venture to enhance production. Venezuela's exports to India (98 percent oil) slumped from \$13.94 billion in 2014-15 to \$5.51 billion in 2016-17, as did India's exports (\$258 million to \$62 million) with pharma companies, the principal exporters, facing problems of payments.

India and **Cuba** signed a MOU on enhanced cooperation in health sector on 7 December during the visit of Cuba's Minister of Public Health. The MOU provides for exchanges, training, regulatory cooperation, procurement, research, etc. in this sector. Cuba has expertise in bio-pharma but lacks capital. It has developed some path-breaking formulations against cancer, diabetes, etc. and its scientists have collaborated with Indian institutions and the private sector (Biocon).

Indian private sector player **Sterlite Power** won a tender in December in **Brazil**, to erect more than 1,800 km of transmission lines in the northern states of Pará and Tocantins. This is Sterlite's third contract in Brazil, where it has already invested over a billion dollars, and a sign of maturity of India's private sector in Latin America. The contract is worth \$800 million.

UNO Minda Group, a Tier 1 Indian auto components supplier announced a \$15 million expansion of its **Mexico** plant manufacturing horns for several carmakers in Querétaro. Mexico is a major importer of motor vehicles and components from India - \$1.3 billion January-August 2017 v/s \$727 million in 2015. It offers significant potential for auto parts, given the value chains set up through NAFTA, and to the south through the Pacific Alliance.

(The views expressed are personal)
