

HIGHLIGHTS

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Political Developments

Vice President M H Ansari led the Indian delegation to the 17th Summit of the Non-Aligned Movement in Venezuela. Venezuela presides over the movement till 2019 when it will hand over to Azerbaijan. There had been speculation in Indian media that PM Modi, the second Indian PM after Charan Singh in 1979 to not attend a NAM Summit, had downgraded the movement. Only 8 of the 120 delegations in fact were headed by Presidents, mainly left-wing allies of the ALBA bloc of LAC (35 went to Teheran in 2012). Political turmoil in Venezuela had delayed the Summit by over a year. President Maduro was booed and ran away from an angry mob days before the summit in Porlamar, capital of Margarita island, the Summit venue.

On 16 September, Argentina, Brazil and Paraguay, with Uruguay abstaining, derecognised Venezuela's 6-month presidency of Mercosur, which will be exercised by a coordinating committee of the founding members. The resolution also called on Venezuela to comply with the group's legislation and relevant international treaties by 1 December 2016, failing which Venezuela's voting rights will be "transitorily" suspended.

In the October municipal elections in Brazil, the left-wing PT of former Presidents Lula and Rouseff lost about two-thirds of the mayoralties it had held. Eduardo Cunha, the former President (speaker) of the Chamber of Deputies, one of the key figures in the impeachment of former President Rouseff was arrested on 19 October for lying about secret offshore bank accounts in Switzerland and banned from politics for eight years.

Brazilian politics will remain in flux well into next year. The regional scenario is also impacted by the hard Mercosur line against Venezuela which stands ever more isolated. The NAM Summit was an unsuccessful attempt to shore up its popularity. Venezuela is attempting desperately to seek consensus in OPEC on production cuts and settle its unmanageable external debt.

Colombia's peace process was set back by a narrow vote - 50.21% to 49.78% - on 2 October against the agreement reached between the government and the FARC in September. The government, with unanimous backing of the international community, was confident of a Yes vote at ostentatious signing ceremonies in Havana and in Cartagena earlier. President Juan Manuel Santos, determined to rescue the process, began immediate negotiations with his opponents, led by former President Alvaro Uribe. His officials returned to Havana to recommence talks with the FARC. On 7 October Santos was awarded the 2016 Nobel Peace Prize.

With the political opposition claiming they are not against peace and outlining their objections to certain aspects of the agreement, principally impunity for the guerillas, representation for them in Congress, etc. the agreement could be salvaged. The bilateral ceasefire has continued and FARC asked the UN to proceed with its involvement in disarmament, etc. The Nobel prize has bolstered the peace process, which may include the ELN, a smaller guerilla group, making the eventual peace more durable.

Economic Developments

At a mega business event on 12-15 September, President Mauricio Macri conveyed the message that Argentina is a country that can be trusted. Projects have been announced, inter alia for exploration and extraction of gold, silver, copper and lithium. Incentives include a 30-year fiscal stability agreement, free transfer of profits, a single exchange system, elimination of the state's export monopoly and free import of capital goods. Latin America's third-largest economy, with a gross domestic product of \$500 billion, after Brazil and Mexico, Argentina has the second-highest GDP per capita (PPP) after Chile, with \$22,600. It has the eighth largest territory in the world, 53 percent arable, favorable conditions for solar and wind power, extensive petroleum, natural gas and mineral reserves.

Brazil and Panama ratified the Paris Agreement on climate change on 5 September. Brazil had agreed at the climate summit in Paris to limit annual emissions of CO₂ to 1.3 billion tons by 2025, a reduction of 36.1 percent, and to 1.2 billion tons by 2030.

An ambitious privatisation program includes concessions for railway projects that have already been built as well as the long-delayed auction of rights in oil fields and hydroelectric plants in the first and second half of 2017; privatisation of six power distributors owned by state-run power holding company Eletrobras and licences to operate airports and roads all over Brazil.

The state hydrocarbons giant Petrobras, hit by crisis and scandal, announced on 20 September, it would cut investment by 25 percent over the next three years; unload \$19.5 billion in assets, mainly biofuels, liquefied natural gas (LNG), fertilizer units and petrochemical ventures; restructure its power and lubricants business to focus on oil and gas production. It aims to increase oil production from 2.62 million barrels per day (bpd) to 3.41 million bpd by 2021.

Argentina and Brazil are rushing to open their economies, attract investment and reduce their debt. Nationalism is giving way to pragmatism. Both Presidents visited China to reaffirm its economic importance. They are actively negotiating a free trade agreement with Europe.

Focus India-LAC

MOOn the sidelines of the BRICS Summit in Goa, PM Modi had a bilateral meeting with President Michel Temer of Brazil. Both reasserted their interest in permanent membership of the UN Security Council. President Temer reportedly conveyed Brazil's 'understanding' for India's case at the Nuclear Suppliers Group. At the plenary meeting in Seoul in June, Brazil supported India but wanted a "non-discriminatory process", not country-specific admission.

Four MOUs were signed: natural resources and fisheries; pharmaceutical products regulation; cattle genomics and assisted reproductive technologies; and investment cooperation and facilitation. Discussions covered cooperation in areas of ship building, pharmaceuticals, defence production, ethanol production and oil and gas. Brazil's cattle breeders have cross-bred Indian strains like Ongole, Zebu for decades but face Indian regulatory obstacles on import of embryos. India submitted in 2012 information on seeds of pearl, millet, sorghum, corn seeds, rapeseed and cotton. Brazil in turn wants market access for its cotton, maize, soybean, grapes, apples, oats and avocado.

India's sugar and ethanol manufacturer Shree Renuka Sugars Ltd (SRSL) is to sell Madhu Mill, one of the two belonging to its Brazilian subsidiary Renuka do Brasil S/A (RdB). SRSL acquired RdB in 2010 for around \$600 million, but with sharp decline in sugar prices, its debt burden became unsustainable. Its creditors agreed to an overall reduction of 70 percent in August.

A V Birla group's Hindalco Industries announced plans to sell its alumina plant and mines in Brazil after prices collapsed. Hindalco has bauxite mining rights of up to 50 million tons in Brazil. The alumina refinery in Ouro Preto in Brazil has a capacity to produce 145,000 tonnes per annum. This exit will leave Hindalco with two aluminium assets in Brazil owned by Novelis, which the Birla group acquired in 2007.

Brazilian aircraft manufacturer Embraer may have sourced bribes through a UK-based agent to sell

3 aircraft for India's Airborne Early Warning and Control Systems in 2008. The Ministry of Defence has asked the Central Bureau of Investigation and the Enforcement Directorate to investigate the allegations and has also taken up the matter with the Brazilian authorities through diplomatic channels. With an FIR registered, the issue casts a shadow on India's most promising strategic relationship in Latin America, though the company has offered to pay a fine to settle the case.

Perto S. A., a high technology and IT Brazilian company and the world's leading manufacturer of Automatic Teller Machines (ATMs) and Cash Dispenser Machines (CDMs), inaugurated its first Indian plant in the Mahindra World City in Jaipur on 19 October, reportedly with an initial investment of \$31 million with further investment projected at \$34 million.

The fall in prices of commodities worldwide, accompanied by a global downturn, further complicated by the Petrobras and Embraer scandals, have impacted India's economic relations with Brazil. Petrobras's crisis could turn up opportunities for India, which exports refined products but imports crude. A loosening of Brazil's regulations is good for India's upstream sector. India's BPCL and ONGC have multi-billion dollar investments in Brazil's offshore. Indian companies investing in Brazil need to study market conditions carefully, and leverage the political relationship to manage adverse regulatory and market conditions.

The agreement for expansion of the India–Chile Preferential Trade Agreement (PTA) was signed on 6 September. The existing PTA offered 178 tariff lines from India with the margin of preference (MoP) ranging from 10-50 percent at 8-digit level and from Chile 296 tariff lines with MoP ranging from 10- 100 percent at 8-digit level. Under the expanded PTA, Chile has offered concessions to India on 1798 tariff lines with MoP ranging from 30-100 percent. India has offered concessions to Chile on 1031 tariff lines at 8-digit level with MoP ranging from 10-100 percent.

Chile was India's third largest trading partner in LAC in 2015-16, with India's exports at \$680 million and imports at \$1.96 billion, principally copper. India's exports comprise transport equipment, pharmaceuticals, tyres and tubes, apparel, chemicals, textiles, readymade garments and leather products. Under the new PTA, 86 per cent of India's exports to Chile can avail concessions.

The third meeting of the Joint Administrative Committee (JAC) on the expansion of the India-Mercosur PTA was held on 29th September in Brasilia. The 'wish lists' exchanged by both sides in July, 2016 were discussed. India's bilateral trade with MERCOSUR fell to \$ 10,081.42 million in 2015-16 compared to US\$ 14,240.46 million in 2014-15. This constituted 37.01% and 39.96% of LAC trade during 2014-15 & 2015-16 respectively. Expansion of the existing PTA could double this trade.

A meeting in Lima, Peru on 26-28 September finalised a Joint Study Group report on the feasibility of a wide-ranging trade agreement within an agreed time frame. India's trade with Peru stood at US\$ 1,523.35 million in 2015-16. Pharmaceuticals Export Promotion Council (Pharmexcil) organised a business tour of 18 pharma companies to four Latin American countries – Peru, Colombia, Panama and Mexico - from 21 August to 3 September. India's exports of pharmaceutical formulations and bulk drugs to these four countries exceeded \$450 million in 2015-16 (www.dgft.gov.in) with much more potential.

Recent political developments in Mercosur have thrown up governments eager to make up for lost time with India. The negotiations concluded with Chile, those commenced with Mercosur, and those to come with Peru will open LAC markets by lowering tariff and other barriers. They will also hopefully improve India's protectionist image. Attempts to open LAC markets have encouraged Indian companies to acquire local companies and set up offices in the region. Higher exposure to Indian markets for more value-added LAC products will help create vested interests there which can further enable India's penetration of the region.

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(The views expressed are personal)
