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HIGHLIGHTS

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Political Developments

The 5th Summit of the 33-nation Community of Latin American and Caribbean States (CELAC) in the Dominican Republic on 25 January 2017 revealed apparent fissures in the region. Only 10 heads of state attended. Mexico, Chile, Panama, Colombia and Guatemala cancelled at the last minute. The political declaration called for Washington to return the Guantanamo military base and end the economic embargo on Cuba “without conditions”. It also called for a “national dialogue” in Venezuela and “constructive commitment”. The first LAC meetings since the inauguration of Trump did not mention US threats but condemned the criminalisation of illegal migration.

Trump’s insistence on a wall along the border, which Mexico would ‘indirectly’ pay for, forced Mexican President Enrique Peña Nieto to abruptly cancel a trip to the United States in end of January. In a reportedly offensive telephone conversation, Trump told Peña Nieto that he may have to send US troops to fight Mexican narco traffickers. He wants to renegotiate NAFTA. Mexico is the leading source of heroin, marijuana and methamphetamine for the United States and the leading transit country for cocaine from South America. Most of the guns in Mexico come from the United States. Mexicans constitute the largest legal immigrant group in the United States, nearly a third, and over half the illegal 12 million immigrants, spread across the country. The United States will have to pay a heavy price if Mexico halts cooperation on security, narcotics and immigration. During a joint visit to Mexico in late February, US Secretaries of State and Homeland Security attempted to calm a prickly Mexican administration, claiming there would be no mass nor forcible deportations of illegal immigrants. The issue is complicated by US attempts to deport illegal immigrants from Central American and other LAC countries through Mexican territory.

Argentina could see improvement in its relations with the United States, given the reported personal and business relationship between Presidents Mauricio Macri and Trump. Macri has curtailed strategic cooperation with Russia and is more cautious with China compared to his predecessor, Cristina Kirschner. China retains its space radar facility in Neuquén, after assuring it will not be used for military purposes. Plans for procurement of military material from both countries are on hold, while military cooperation with the US is set to increase.

A politically dysfunctional Haiti finally got a new President on 3 January. Ruling-party candidate Jovenel Moise, a businessman close to former President Michel Martelly, who completed his term in February 2016, won 55.6 percent in a field of 28 candidates. Haiti continues to suffer extreme poverty, political fighting and crime. Hurricane Mathew in September left 573 dead and 800,000 affected in a country still to recover from the earthquake of January 2010. Over 900 Indian paramilitary personnel, participating on rotation in MINUSTAH, the UN peacekeeping force, maintain order in areas of Haiti since 2008.

Taiwan's President Tsai Ing-Wen made official visits to Honduras, Nicaragua, Guatemala and El Salvador. Of 21 countries that recognise Taiwan, 12 are in LAC: 6 in Central America, 5 in the Caribbean and Paraguay in South America. The main event of her tour was the inauguration of President Ortega in Nicaragua on 10 January. Taiwan's aggressive foreign policy appears to be a departure from the PRC-Taiwan understanding of recent years not to change the status quo in LAC by wooing nations competitively.

Venezuela's beleaguered President Nicolas Maduro appointed a new Vice President, Tareck El Aissami, giving him unprecedented powers to approve all ministries' budgets, appoint Vice Ministers and manage the expropriation of private businesses. With this El Aissami, who was Interior Minister under Chávez, could become a "possible presidential candidate" of the socialist ruling party, or interim President if Maduro is impeached before his term ends in late 2018. The 42-year-old El Aissami is being investigated by U.S. prosecutors for possible involvement in drug trafficking.

Economic Developments

IMF assesses that Latin America's economy will grow just 1.2% in 2017: Brazil (0.2%); Mexico (1.7%); Argentina (2.2%); Chile (2.2%) and Peru (4.3%). Venezuela's GDP will shrink further.

UNCTAD figures show that despite a fall in foreign investment in Brazil from \$65 billion in 2015 to \$50 billion in 2016, it was ranked 7th, ahead of India in 8th place with \$42 billion (\$59 billion in 2015). Brazil's Central Bank estimated FDI in 2015 at \$75 billion and in 2016 at \$78.9 billion. This is despite a recession in Brazil for two successive years. The Inter American Development Bank reported a rise in remittances by 8 percent to \$70 billion to LAC in 2016. The principal recipient was Mexico with \$27 billion.

The Trump's effect on Mexico's economy led to Ford cancelling plans to set up a \$1.6 billion plant in Mexico. General Motors and Chrysler also shied away from commitments, apprehensive over the threat of US tariffs on cars made in Mexico. 85 percent of Mexico's exports go to the United States.

Brazil's giant infrastructure engineering conglomerate Odebrecht, the focus of the political scandal that felled the sitting Brazilian president last year, has been involved with high officials in other countries, including former Peruvian President, Alejandro Toledo. Prosecutors from 11 LAC countries agreed to jointly investigate allegations. Odebrecht, which agreed to pay a combined total penalty of at least \$3.5 billion to resolve charges with authorities in the United States, Brazil and Switzerland, is seeking deals with prosecutors in Argentina, Colombia, Ecuador, Mexico, Panama, Peru, the Dominican Republic and Venezuela, if restrictions blocking it from doing business are lifted.

Focus India-LAC

After Venezuela's state-run oil company PDVSA and ONGC Videsh Ltd. (OVL), last year signed a deal allowing the latter to get 17,000 barrels per day (bpd) of oil to recover dues of about \$540 million, OVL received the first installment of \$19 million in end of January. OVL has invested \$200 million in the San Cristobal field in Venezuela and had not received any dividend since 2009. The two companies also agreed that ONGC will arrange a loan of \$320 million to boost output from the field, currently about 21,000-22,000 bpd, to 27,000-30,000 bpd.

The Cabinet on 18 January gave the green light to negotiations for an agreement with Peru on trade in goods, services and investment. A Joint Study Group (JSG) between India and Peru submitted its report in October, 2016. Peru was the third export destination for India in the LAC region in 2015-16, with bilateral trade at US\$1,523.35 million and India's exports at US\$ 703.12 million.

Indian software major Wipro, which has a significant presence in Latin America with offices across Argentina, Brazil, Chile, Colombia and Mexico, announced in January the acquisition of Info Server for around Rs 60 crores. The Brazil-based company, providing custom application development and software

deployment services, has some of the largest Brazilian banks as its clients, which will help Wipro consolidate its base in the vital LAC finance industry.

India's Financial Express, quoting an unnamed official source, claims India is evolving a strategy to ensure adequate supplies of lithium, used to make batteries for electric vehicles (EV), meeting defence production requirements and for its ambitious solar power mission, from the "lithium triangle" of Bolivia, Argentina and Chile. Bolivia has the world's largest untapped reserves, in which China is already invested. Although it seeks Indian investment, the unfortunate experience of the Jindal group's venture in its iron ore investment a few years ago, and Bolivia's uncertain investor protection regime, may need to be studied and even negotiated, to ensure any Indian joint venture in this sector does not suffer the same fate.

India's public sector Numaligarh Refinery Ltd. in Assam has been refining waxy crude for years and turning out large quantities of paraffin wax. It has ventured into LAC with exports earlier to Mexico and Nicaragua. In January-February it exported 240 tonnes to Brazil and smaller quantities to the Dominican Republic.

(The views expressed are personal)
