

Ambassador Deepak Bhojwani

Adviser, Latin America & Caribbean, Ananta Centre
Former Ambassador of India to Colombia, Venezuela and Cuba

HIGHLIGHTS

- Political Developments
- Economic Developments
- FOCUS India-LAC

Political Developments

Ecuador's Former Vice President Lenin Moreno (2007-13), candidate of the ruling party ALIANZA PAIS, was elected President in the second round of voting in the presidential election on 2 April. Moreno, a paraplegic who had done better in the first round in February, defeated the conservative businessman, Guillermo Lasso of the CREO party, by 51.1 to 48.9 percent. This victory has come as a relief for the Left in South America, where allied regimes have lost to the Right recently in Brazil, Argentina and Peru. Outgoing President Rafael Correa, who since 2007 had introduced the 'Citizen Revolution' and stabilised the economy, putting it firmly in the leftist, anti-US camp, is expected to retain influence behind the scenes as head of the party. The fall in price of oil, 35 percent of Ecuador's export, shrunk the economy by 1.7 percent in 2016 and drove up its debt.

The Supreme Court of Venezuela, packed with government nominees, sought to grab the functions of the unicameral National Assembly, dominated by the opposition, on 29 March. It held the lawmakers "in a situation of contempt," for swearing in 3 legislators whose election had been held in abeyance. The justices would step in to "ensure that parliamentary powers were exercised directly by this chamber, or by the body that the chamber chooses." After four LAC countries recalled their Ambassadors from Caracas and Venezuela's Attorney General denounced the Court's move, the Supreme Court rescinded the order on 2 April, at Maduro's instance. The court however, blocked a move by the Assembly to prevent President Maduro from pursuing oil ventures without legislative approval, as prescribed under the constitution.

On 7 April, the Venezuelan Comptroller disqualified from holding public office, for 15 years, a state Governor and leading opposition figure, Henrique Capriles, who lost the 2015 presidential election to Maduro by a very slim margin. Capriles reportedly accepted donations, gave out contracts without bidding and did not submit the budget bill on his governance in 2013. All over Venezuela there have been protests by the opposition, some violent, even in areas considered sympathetic to the government. Dozens have been killed and thousands injured or arrested.

The Organisation of American States (OAS), which had been debating the situation in Venezuela, passed a hard-hitting resolution on 3 April, with 17 votes and 4 abstentions, condemning the "serious unconstitutional alteration of the democratic order" in Venezuela, demanding restoration of "the full authority" of the National Assembly. Bolivia (chairing the session), Venezuela and Nicaragua left the session after denouncing it as "illegal" and an "institutional coup d'etat". After 19 countries voted for the OAS to again debate the situation in Venezuela, Maduro's government formally withdrew from the organisation, which includes all the countries in the hemisphere barring Cuba, which refuses to rejoin it. The actual exit under OAS rules will take effect in 2019.

Brazil's infamous 'Lava Jato' corruption scandal involving leading politicians, Brazilian national oil company Petrobras and engineering multinational Odebrecht among others, continues to erupt. Hours of video footage recorded by investigators showed executives from Odebrecht explaining how they bribed officials to win lucrative contracts. The accounts cover decades and mention dozens of politicians, including all five of Brazil's living presidents. A Supreme Court judge commenced investigations into 87 high profile politicians: eight serving Ministers, including the President's Chief of Staff and the Foreign Minister; 12 governors and dozens of legislators. President Temer has said Ministers must resign if formally charged. Odebrecht has been fined \$2.6 billion by a US court for bribes in US, Brazil and Switzerland. It is linked to more than 100 construction projects in Angola, Argentina, Brazil, Colombia, the Dominican Republic, Ecuador, Guatemala, Mexico, Mozambique, Panama, Peru and Venezuela.

The United Nations narcotics control board (INCB), in its annual 2016 report released on 2 March, warned that the production and consumption of cocaine in South America had increased, especially in Colombia, where coca cultivation increased 39 percent from 69,000 hectares (170,000 acres) of in 2014 to 96,000 in 2016. Drug use among students in South America is now higher than in North America. The highest consumption is in Brazil, Argentina, Chile and Colombia.

Economic Developments

Mexico has taken on the Trump challenge by accelerating talks with signatories of the TPP, Brazil and Argentina who were invited to the March meeting of the 4-nation Pacific Alliance, followed by a meeting between the two blocs in April in Buenos Aires. This market-friendly grouping, formed in 2012 by Mexico with Chile, Peru and Colombia, has drawn attention for its success in lowering trade and investment barriers. US threats have already impacted the Mexican peso, FDI and may hit GDP growth (2.3 percent in 2016). A major benefactor could be China, which has already eaten into US market share, enjoys a considerable trade surplus with Mexico, has set up automobile plants and scored some important projects in Mexico. Meanwhile on 26 April, President Trump reportedly told his Mexican and Canadian counterparts he would not immediately terminate NAFTA but instead bring it 'up-to-date through renegotiation...'

China's focus on LAC continues despite the global slowdown. China's Development Bank and Export Import Bank have lent US\$ 141 billion since 2005. Loans principally to Brazil, Venezuela and Ecuador in 2016 totaled US\$ 21.2 billion, after the record \$ 37 billion in 2010. Ongoing projects include the El Mutún iron ore mines (which India's Jindal Steel exited in 2012), with a loan of \$ 1.5 billion; a \$ 327 million railway project in Jamaica; hydel plants in Argentina, etc. China's funding, though higher than the World Bank and IADB combined, comes at relatively high rates of interest, is invariably tied to Chinese procurement, and often involves import of Chinese labour, which in some cases has resulted in amplifying the Chinese diaspora. In the case of Venezuela these funds have been used for budgetary purposes, a practise winked at by China to consolidate its political hold there.

The United Nations Development Program (UNDP) released the 2016 Human Development Report ranking countries on a Human Development Index (HDI), that measures advances in life expectancy, literacy and the quality of life of the population. Venezuela stands out with a score of 0.767 over Brazil (0.754), Peru (0.740) and Colombia (0.727). The UNDP warns in its report that despite the general progress recorded in the Human Development Index during the last 25 years, extreme poverty and exclusion persist in Latin America, mainly due to unequal distribution of income. India's value has increased by 46 per cent (from 0.428 to 0.624) between 1990 and 2015, well below Latin American countries, and it ranks 131 out of 188.

Focus India-LAC

The framework for negotiation of a Trade Agreement with Peru was finalised during the visit of Vice Minister of Foreign Trade, Edgar Vasquez to India in March. The agreement falls short of a free trade agreement that Peru was willing to negotiate. India prefers to move slowly though both sides agreed to include services and investments within the ambit of the negotiations. Peru is one of the more dynamic

economies of the region. The election last year of the market-friendly economist Pedro Pablo Kuczynski as President bodes well for the bilateral relationship. India's exports April-December 2016 amounted to \$ 529 million (\$ 703 million in 2015-16 and \$ 819 million in 2014-15). Trade is more or less balanced, slightly in Peru's favour. Peru is interested in export of fruits, minerals and other commodities. India seeks greater market opportunities in pharma, engineering, textiles and other manufactures. Investments by Indian companies have been small; the mining sector still presents regulatory, infrastructural and other challenges.

An important aspect of the impact of US-LAC relations on India's relations with that region relates to energy. LAC provides more than 30 percent of the oil the US imports, is a growing importer of U.S. natural gas and the largest market for refined petroleum products from the US. US companies are big investors in Argentina, Brazil, Mexico, and Venezuela. If the US imposes tariffs and other controls on imports (NAFTA does not cover energy); reduces regulation or otherwise forces or attracts US investment back, LAC energy exporters, reliant on this sector, could begin to look elsewhere.

Indian companies have invested billions of dollars upstream in Venezuela, Brazil and Colombia. ONGC (Videsh) Ltd is looking at Mexico, where since the energy sector was opened up in December 2013, 48 new operators from 14 countries have bid for projects amounting to \$49 billion. Imports of crude oil from Venezuela, Brazil, Colombia, Mexico and Ecuador range between 10 and 15 billion dollars annually, increasingly independent of term contracts with the national oil companies. Reliance Industries Ltd. exported over 3 billion dollars worth of petroleum products to Brazil in 2014-15. Excess refining capacity in India complements lack of the same in LAC, which currently imports most of its needs from the US.

India's imports of crude from LAC have fallen by volume and value. This is partly due to higher imports from Gulf suppliers, but also circumstances in LAC markets. Colombia's falling production, and slim discount margins for West Texas quotes reduced imports from \$ 1.77 billion in 2014-15 to \$ 304 million in 2015-16 and to \$ 128 million April-December 2016. Imports from Brazil halved from \$2.53 billion (2014-15) to \$ 1.24 billion (2015-16).

Venezuela, India's principal supplier, which accounted in 2015 for almost 12 percent of India's crude imports, has a lower market share in India because of declining crude production and heavy obligations under oil-for-loan deals with China and Russia. Imports from Venezuela fell from \$11.7 billion (2014-15) to \$5.7 billion (2015-16). National oil company PDVSA expects shipments to India to drop to 360,000 bpd this year. Its direct shipments to Reliance fell by 61% between 2013 and 2016. CNPC entered the Indian market with more than 180,000 bpd of Venezuelan crude in 2016. Russia's Rosneft, which has a producing joint venture with PDVSA, and last year bought a 49 percent share of Essar Oil, will export its Venezuelan crude production to India and extend its retail operations here.

(The views expressed are personal)
