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HIGHLIGHTS

• **Political Developments** • **Economic Developments** • **Focus India-LAC**

Political Developments

Mexico elected Andres Manuel Lopez Obrador - popularly known by his initials AMLO - on 1st July for a six-year term by a wide margin over his conservative rivals: 53 percent to AMLO, 22.5 percent to Ricardo Anaya from the National Action Party (PAN), and 16.4 percent to Jose Antonio Meade from the Institutional Revolutionary Party (PRI). Sixty four-year old AMLO heads a three-party coalition led by the leftist National Regeneration Movement (Morena) which he founded in 2014. His movement has also captured important governorships and a majority in both houses of Congress, the first time this century (and since the end of the 7-decade PRI monopoly on power) a Mexican president enjoys this privilege. At least 60 percent voted, of an electorate of 89 million, for 18,000 elected posts, in an election marred by violence and the assassination of around 150 politicians.

AMLO brings experience of Mexican governance from his days as Mayor of Mexico City and a lot of bitterness from past defeats at the hands of the 'mafia of power'. He espouses a change, a fight against corruption, economic independence, social justice, more control of hydrocarbon resources, and a more independent foreign policy. A leftist in charge of Mexico for the first time in decades runs counter to the election this year of conservative presidents in Chile, Colombia, Paraguay and earlier in Peru and Argentina. Mexico today is, however, a very open economy, a member of the OECD, APEC, G20, robustly integrated into global supply chains. Its foreign trade is greater than India, though most of it is with the United States. AMLO tried to assuage the markets in his victory speech: "... We will not act arbitrarily nor will there be confiscation or expropriation of property." Despite conciliatory comments from AMLO and President Trump, the US-Mexico relationship, battered by US threats to build a wall which Mexico will pay for, and expel Mexican immigrants, will be watched closely. The signs were good by end August, with the US and Mexico announcing a bilateral deal on trade, based on give and take on automobiles and certain other sticking points.

The situation in **Nicaragua** continued to worsen as the death toll by July crossed 300. Violent protests broke out on 18 April when President Daniel Ortega announced reforms to the pension system. Ortega, who led the revolt against right-wing dictator Anastasio Somoza in 1979, formed the Sandinista movement and led it to electoral victory. He faced resistance from his own supporters but co-opted the private sector and the armed forces, and eventually got a pliant

judiciary to sanction his re-election in 2016. He won with 70 percent of the vote. The protests, initially led by students but later backed by diverse sections of Nicaraguans, were suppressed violently by the government which miscalculated the depth of popular resentment at first. Ortega, who rules along with his wife and Vice President, Rosario Murillo, gave in and suspended the pension measures but the movement against him has snowballed and most analysts feel he cannot last till the next election in 2021. Nicaragua's Catholic bishops, who were asked by Ortega to mediate, recommended early elections in March 2019. The OAS has also been involved to strengthen democratic institutions in the country and passed a resolution - 21 of 34 votes in favour - on 18 July calling for early elections. The permanent council of the OAS rejected by 20-3 a Nicaraguan draft denouncing "coup-mongering opposition groups". Though a left-wing regime and a member of the leftist regional ALBA bloc, Ortega's government has spurred growth in Nicaragua, though there are allegations of corruption and collusion with sections of the private sector. Nicaragua has sought strategic cooperation with Russia, works with China though it recognises Taiwan, and has close relations with Venezuela.

On 31st July, **Cuba** published the text of a new draft constitution - 224 articles approved by the legislature. This will go through a popular consultation process till November, after which it will be submitted to approval by referendum. The new constitution drops the word "communist", and refers to the "socialist character of the political and social system" of the island with the Communist Party of Cuba as the "superior ruling force". The draft proposes to recognize private property, reorganize the government by reviving the position of prime minister (abolished in 1976) and pave the way for possible recognition of same-sex marriage as well as other economic, social and political changes. It also offers formal recognition to freedom of expression and association, but within the limits of current laws that restrict those rights. It does not provide for direct elections for top government jobs. In the making for the past five years by a working group headed by former President Raúl Castro, the draft acknowledges the economic reforms over the past decade and advocates sustainable socialism with private property, recognizing the need to promote foreign investment on the island. Recently approved regulations, however impose high taxes and stringent restrictions on private enterprises, limiting their size, workforce and profits. Foreign investors still have concerns about whether their contracts and asset ownership will be protected, though the new constitution protects property, including foreign investment, from expropriation except for public purposes. It guarantees compensation, the right to choose their own workers and compete with the state sector. These constitutional changes will not weaken the dominance of Cuba's military-run conglomerates in all the profitable sectors of the Cuban economy.

A politico-legal battle loomed in **Argentina** in mid-August with judicial orders for arrest of a dozen people, including prominent businessmen over suspicions of corruption involving the previous Kirschner government and construction companies, based on plea bargain testimonies by businessmen and former officials involved. Argentina's daily La Nación earlier this year got copies of eight handwritten notebooks of a chauffeur of the Kirchner government. These detailed trips to pick up bags full of cash from companies awarded government contracts, including the apartment of late president Nestor Kirchner, and his wife and successor Cristina, between 2005 and 2015. The bribes are estimated to be worth US \$ 200 million. A judge requested that former president Cristina Fernandez be stripped of her congressional immunity as senator and ordered a raid into her home. The scandal recalls the 'Car Wash' operation that brought down the previous government in Brazil and led to the arrest of former President Lula.

On 20 August **China** scored another diplomatic victory when El Salvador shifted recognition from **ROC (Taiwan)** to PRC. The shift was anticipated but came just two days after Taiwan's president Tsai Ing-wen visited the region. A Chinese embassy in the capital San Salvador should be functional shortly, along with a Confucius Institute. This reduces the number of countries in LAC that retain diplomatic relations with Taiwan to 9 of a total 17 worldwide.

Economic Developments

The UN Economic Commission for Latin America and the Caribbean (ECLAC) in its report released on 5th July revealed that foreign direct investment (**FDI in LAC**) has been falling since 2011. In 2017 at \$ 161.673 billion dollars, it was down 3.6% from 2016. The decline is attributed to lower prices for basic export products, which have significantly reduced investment in extractive industries, and to the economic recession experienced in 2015 and 2016, mainly in Brazil. Though the region resumed growth (1.3% of GDP) and the prices of oil and metals picked up, it was not enough. The main victims were south American countries. In Central America, FDI rose for the eighth straight year (to \$13.083 billion dollars), with a particularly notable increase in Panama, which reached \$ 6.066 billion dollars. In the Caribbean, flows grew 20 percent to \$ 5.835 billion dollars, 60 percent of which went to the Dominican Republic. FDI outflows from the region's countries fell more sharply than inflows and totalled just \$ 23.416 billion dollars in 2017.

In August ECLAC reduced its growth estimates for LAC from 2.2 percent to 1.5 percent given the "complex global environment" and trade tensions between the United States, China and other nations. South America is expected to grow 1.2 percent in 2018, while Central America may grow 3.4 percent, and the Caribbean 1.7 percent. Brazil and Mexico, the two largest economies in Latin America, are expected to grow 1.6 percent and 2.2 percent, respectively. On the other hand, Venezuela's GDP is expected to fall by 12 percent, while Argentina's economy may shrink 0.3 percent.

Argentina hosted the G-20 finance ministers late July, overshadowed by US tariff threats and President Donald Trump's belligerence. Latin America is turning to the EU and others, and within the region, to reduce trade barriers. Mexico advanced the renegotiation of its 2000 agreement with EU in April 2018. Mercosur (Brazil, Argentina, Uruguay, and Paraguay) revived an EU agreement stalled for almost two decades. It has started talks with Canada, reached out to Singapore, New Zealand and Australia, is eyeing South Korea and possibly China. It is also discussing amplification of the India-Mercosur Preferential Tariff Agreement of 2007, though talks are going slow. Mexico, Peru, and Chile were founding partners of the renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership after the U.S. withdrawal, which Colombia is keen to join. Panama has begun negotiations with China. On 24th July, Presidents of the Pacific Alliance and Mercosur countries, Latin America's two most important trade blocs, signed a joint statement and an action plan to promote free trade and regional integration at a summit in Puerto Vallarta in Mexico, to establish "concrete measures to facilitate the trading of assets, promote the globalization of small and medium-sized companies, and the growth of the knowledge economy".

On 28 August, **Argentina** raised its interest rate 15 percentage points to 60 percent, the highest in the world. At 40 to the dollar the Argentine peso had by then fallen to 49 percent this year. It has negotiated early disbursements from a 50-billion-dollar credit line from the IMF.

Venezuela issued the redenominated 'Sovereign Bolivar' – pegged to the cryptocurrency Petro - on 20 August. Instead of the earlier announced three zeroes, the new currency has five zeroes lopped off. This is the second redenomination of the Bolivar in a decade. Bank ATMs however are only releasing 10 SBs a day. President Maduro also hiked the minimum wage to 1800 SBs - around \$ 30 - a month. Refugee flows out of Venezuela increased as economic misery became more acute.

Focus India-LAC

Recently published statistics on **India's trade with LAC** by India's Directorate General of Foreign Trade (DGFT) of the Department of Commerce reveal that in the financial year 2017-18, India's exports and imports both rose. Exports rose from \$ 10.7 billion in 2016-17 (3.9 percent of worldwide) to \$ 12.4 billion (4.1 percent). Exports rose from \$ 20.25 billion to \$ 24.63 billion, constituting 5.3 percent of India's exports worldwide in both years. India's star export markets were Mexico: \$ 3.93 billion (\$ 2.95 billion in 2016-17); Brazil: \$ 3.06 billion (\$ 2.4 billion); Colombia: \$ 939 million (784 million); Peru: \$ 760 million (696 million); Chile: \$ 763 million (674 million); Argentina: \$ 708 million (510 million). Although there is much more potential, the increase in exports is encouraging because of the presence of supply chains set up by growing Indian investments in that region, enabling Indian auto, pharma, chemicals and other companies to export to markets they have established and nourished. Apart from crude oil imports, which diminished in volume and value over past years, significant import of gold is recorded from Peru, Bolivia and the Dominican Republic, while copper import from Chile more than doubled from \$ 911 million to \$1.74 billion, thanks to lower tariffs under the preferential tariff agreement which was amended recently.

Venezuela's national oil company PDVSA met India's Reliance and Rosneft (which has bought operations of Essar in India and renamed these Nayara) over fall in crude supplies. The two Indian refiners have been purchasing over 300,000 barrels per day (bpd) in 2018. With fall in Venezuelan production and commitments to major creditors, PDVSA shipped 280,000 bpd to India in the first half of the year, a 21 percent drop from 355,500 bpd shipped in the same period of 2017. The volume fell to 240,000 bpd in July, complicating matters for Indian refiners facing reduced Iranian imports. A tanker bottleneck in the main Venezuelan port of Jose further complicates matters, with most buyers refusing to take delivery on the high seas, because of the threat of expropriation of Venezuelan assets to enforce a \$2 billion award by Conoco Philips against PDVSA. Venezuela's oil production averaged 1.58 million bpd in the first five months of 2018, according to figures reported to OPEC, its lowest annual level since 1985.

On 27 August, the **Brazilian steel conglomerate, Gerdau** sold its interest in its Indian subsidiary for \$120 million to Blue Coral Investment Holdings Pvt. Ltd. yMountainpeak Investment Holdings Ltd. Gerdau had bought the steel plant, which manufactures 250,000 tonnes of steel and 300,000 tonnes of laminated steel sheets, from Kalyani Steel a few years ago but now will focus on its holdings in the Americas.