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HIGHLIGHTS

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

Political Developments

Venezuela's government and opposition met in informal talks in Oslo, Norway mid-May. Norwegian television network NRK, citing unnamed sources, reported that contacts between the Maduro and Guaidó camps began in Cuba before shifting to the Scandinavian country. The talks were held at a secret location in Oslo with the participation of Norway's foreign ministry which said in a statement it had had "preliminary contacts with representatives of the main political actors of Venezuela…part of an exploratory phase, with the aim of contributing to finding a solution to the situation in the country." President Maduro welcomed the opportunity, which provided relief from the ongoing deadlock and international pressure. Opposition representative and 'Interim' President Juan Guaidó, recognised as the legitimate head by the US and over 50 other countries, expressed complete distrust of the government but acknowledged the talks were held, though no details were available. By end June deadlock continued, with Guaidó claiming there were no further plans for talks unless Maduro agreed to step down. Maduro seems to have survived the critical challenge from the opposition, which is showing signs of fracturing, and has challenged his opponents to early parliamentary elections (due in 2020).

In **Panama** on 4 May, Laurentino Cortizo of the Democratic Revolutionary Party won the presidential election, narrowly beating Rómulo Roux of the Democratic Change party (of jailed former President Ricardo Martinelli). The outgoing President, Juan Carlos Varela is deeply unpopular, facing allegations of corruption and nepotism. The strong showing of an independent candidate revealed the extent of popular frustration at party politics. Cortizo has promised constitutional change. Panama is also internationally noted for its recognition of PR China last year, despite receiving heavy investments from Taiwan. Massive Chinese investments in Panama have drawn US criticism and veiled threats.

Brazil's Vice President Gen (Retd) Hamilton Mourao visited China late May and met President XI Jinping. He was well received by a regime beleaguered by a US onslaught. President Trump seeks to reduce Chinese influence worldwide, especially in Latin America, and is pressurising right wing Brazilian President Jair Bolsonaro and Brazil's ultra-conservative Foreign Minister Ernesto Araújo to play along. Mourao has been targeted by the extreme Brazilian right for his pragmatic approach to foreign relations and is walking a tightrope. Bolsonaro however needs the support of the Brazilian armed forces, and the political drama in Brasilia is being watched closely. Apparently the visit went well, though Brazil has still to commit itself to China's BRI. There is also the question of the ingress of Huawei and its technology, which has already been welcomed by Mexico and Argentina. The Chinese tech company has already opened an Internet of Things lab in São Paulo state and plans to build a smartphone assembly plant in Brazil later this year. Mourao, who also met with Huawei Chief Executive Ren Zhengfei, said Brazil has no plans to bar Huawei when it launches its 5G network next year. China is Brazil's largest trading partner and a valuable investor. It will also be present at the next BRICS summit to be held in Brazil in November this year.

Brazil's largest industrial conglomerate, Odebrecht filed for bankruptcy protection in June. The diversified infrastructure and construction company, founded in 1944, has long been one of Brazil's most important multinationals, building everything from the Miami Heat basketball arena to a hydroelectric dam in Angola. It was also responsible for bribing politicians all over the region in exchange for overpriced contracts. According to the US Justice Department, Odebrecht paid US$ 788 million in bribes across 12 countries to serving and former heads of state and ministers. The Odebrecht scandal (also known as Car Wash or Lava Jato) cascaded across the region over the past few years, bringing down presidents in Brazil and Peru, a vice president in Ecuador, and tainted politicians, businessmen and bureaucrats in several countries. Once one of the most influential people in Brazil, CEO Marcelo Odebrecht was sentenced to 19 years in prison. The company seeks protection from a $20 billion debt overhang. In 2018, Odebrecht agreed to pay US$ 700 million to the Brazilian government as part of a $ 2.6 billion settlement with the United States, Switzerland and Brazil. The bankruptcy pulls down the curtain on a saga that embodied a deep-seated Latin American malaise and impacted Brazil's competitiveness and entrepreneurial reputation. In a twist to the tale, renowned judge Sergio Moro, who was central to the Lava Jato investigation and convicted former President Lula, and is the Justice Minister in the present government, faced embarrassment over leaked telephone conversations which indicate his collusion with public prosecutors to guarantee Lula's conviction.

The saga of corruption and debasement of institutions in Latin America continues. In **Guatemala**, the first round of presidential elections on 16 June left two contenders for a second round. Sandra Torres, wife of the former disgraced president Alvaro Colom is the front runner, ahead of Alejandro Giammattei who is backed by former military officers loyal to the former president Pérez Molina, convicted in 2015 for corruption (along with his vice president) while in office. Giammattei is also backed by outgoing president Jimmy Morales, a former comedian who catapulted to the presidency over widespread popular disgust but failed the integrity test. Corruption in Guatemala has been monitored by the CICIG (International Commission against Impunity in Guatemala) created in 2006 by an agreement with the UN. Over 10 years CICIG brought charges against 680 people, jailing two presidents, military officers, corrupt business leaders, druglords, etc. It also levied accusations against President Morales - who then terminated the agreement with the UN in January 2019 - and Sandra Torres. Candidates believed to be supportive of the CICIG were either disqualified or did not have the backing of a network of corrupt politicians that seems destined to control this country of 7 million.

Economic Developments

On 28 June the **European Union (EU) and MERCOSUR** (Southern Common Market – Brazil, Argentina, Uruguay and Paraguay) sealed a trade deal that they began negotiating 20 years ago. The agreement, which has to be ratified by EU members and Mercosur, would eliminate €4 billion ($4.6 billion) in duties for EU companies and merge two, vast regions into a bloc with a total economic output of €19 trillion. Over 90 percent of tariffs will be abolished. Mercosur, headquartered in the Uruguayan capital Montevideo, has a population of 264 million and a GDP equivalent to around one-eighth that of the EU. Mercosur has operated a system of common tariffs on external goods and services, but restrictive rules and poor consolidation of the customs union or common market has actually held back progress in individual bilateral agreements. Each country in the bloc requires the consent of Mercosur's other members for such agreements to go through. Differences especially over politically sensitive agricultural products crippled previous negotiations. The two blocs resumed talks in October 2016 after a four-year hiatus. The advances were possible in part because pro-globalization governments had by then taken power from leftist governments in Brazil and Argentina. While Mercosur meat, sugar and poultry exports will gain easier access to European markets, European cars, wine and pharmaceuticals will get preferential access in Mercosur markets. To prevent a backlash from meat producing European countries, Brussels got a commitment from Mercosur to "effectively implement" the Paris climate agreement and abide by sustainable development goals, including labour rights. EU and Mercosur already trade almost €90 billion of goods annually, which makes Europe the South American bloc's second-biggest trading partner behind China.

On 7 June, President Trump suspended his threat to levy tariffs on imports from **Mexico** from 10 June if the latter did not stop the flow of illegal immigrants into the US. Trump also committed to obtain US ratification of the US-Mexico-Canada Free Trade Agreement (USMCA) which was finalised a few months ago to replace NAFTA. At issue is the designation of Mexico as a safe third country by the US, which Mexico refused to agree to, since that implied it would be responsible for all immigrants from the region within its territory seeking to enter the US. The matter has been defused by patient and skilful diplomacy but remains a problem for the future, with most stakeholders worried about the impact hasty steps such as tariffs would have on the economic prosperity of the region as a whole, and Trump focussing on his voter base primarily. The "Remain in Mexico" policy, officially known as the Migrant Protection Protocols, was enacted by the US this year and involves returning to Mexico all those who reach the US border seeking asylum (no matter where they come from) and where they must wait until their cases are resolved in the US.

Venezuela reported a sharp contraction of GDP in its first official release of economic data in nearly four years. The government of President Maduro halted the publication of economic indicators in 2015 as the economy started to suffer the consequences of the global decline in oil prices. According to the figures, the economy contracted 22.5% percent in the third quarter of 2018 year on year. The report admits the economy shrank 47.7% between 2013 and 2018, and compared with 2012, non-oil imports fell by 89%. Oil export earnings dropped to US$ 29.8 billion in 2018 from US$ 31.5 billion in 2017. Monthly inflation in April 2019 was 33.8%, while 2018 full-year inflation reached 130.06%. In 2017, it was an alarming 862.6%.

China has been a staunch supporter of the Maduro regime, having supplied till date 269 tons of medicines to the beleaguered government. China's crude oil imports from Venezuela hit 469,000 b/d in January-February 2019, 40.3% higher from the average 334,000 b/d in 2018. However, with sanctions increasingly taking their toll, these imports could drop by about a third to around 186,000 b/d in 2019, according to some reports.

On 5 June, the Empress of the Seas of the US based Royal Caribbean company became the last cruise ship to sail to **Cuba**. The latest sanctions announced by President Trump will cut by half the number of US tourists (600,000) that visited Cuba in 2018, choking a vital source of income for a struggling Cuban tourism industry and a nascent private sector on the island. While the US seeks to pressure the Cuban government to open up politically, as well as end support for the Maduro regime in Venezuela, many Cubans also blame the recently sworn in government of President Miguel Díaz Canel of harping on political 'continuity' instead of economic change. The standoff looks likely to continue, with the Maduro regime holding on to power in Caracas and the old guard in Cuba refusing to back down before US threats and pressure.

Focus India-LAC

With India suspending **crude oil imports** from Iran there was a partial focus on **Latin America**. At one time Venezuela was the third largest supplier of crude to India. Recent sanctions levied by the US government almost put paid to the option of shifting all lost volumes to Venezuela. Reliance and Nayara (former Essar now owned by Russia's Rosneft) are the only Indian importers capable of refining Venezuelan heavy crude. Conflicting reports left the impression that Reliance was importing from Rosneft and is compliant with US sanctions, though the crude could be Venezuelan, since Rosneft owns sizeable oil equity in Venezuela. According to one analysis, Venezuela was the largest oil exporter to India from LAC in 2018, at $7.38 Billion, followed by Mexico ($3.71 billion), Brazil ($1.49 billion), Colombia ($371 million) and Ecuador ($126 million). Imports from Mexico rose by about 13% in the November 2018-May 2019 period from a year earlier to 268,000 bpd. With Indian public sector companies invested in Brazil, Venezuela and Colombia, and looking at Mexico and Argentina upstream, prospects are bright for enhancing energy cooperation with stabler regimes in Latin America, which can be reliable and relatively non-controversial suppliers in the long run.