

## HIGHLIGHTS

- **COVID 19**
- **Political Developments**
- **Economic Developments**
- **Focus India-LAC**

## COVID 19

On 21 May Latin America & the Caribbean (LAC) passed the grim milestone of **1 million deaths** from the pandemic. Over a third of COVID-19 deaths in the world by June end were in this region, with around 8 percent of the world's population. **Brazil** remains the third hardest-hit in the world (after India) in terms of confirmed COVID-19 cases but at 500,000 it has the highest death toll in the region. **Mexico, Colombia, Argentina, Paraguay and Uruguay** combined represent about 74 percent of deaths in Latin America. With more than 213 deaths per 100,000 people, **Peru** has the world's highest per capita death rate. There have been political consequences, with a parliamentary committee investigating Brazil's President Bolsonaro for mismanaging the vaccination program and downplaying the seriousness of the pandemic. Other regional leaders are also facing public backlash for mishandling of the pandemic.

Vaccine and health diplomacy has become an important avenue of engagement with LAC.

By late May 2021, China had supplied more than 165 million COVID-19 vaccines to Latin America and the Caribbean, mainly Mexico, Chile, Venezuela and Brazil. India has donated around 650,000 doses. China has mostly sold, with token donations to Dominican Republic, Mexico and high-profile football stars. The US is a latecomer with supplies to Mexico and a few other countries. Russia's Sputnik V is already being administered in several countries. Brazil, which plans to produce the Chinese vaccine and is developing its own, has not backed the India/South Africa initiative in the WHO to lift intellectual property restrictions on essential components of vaccines and other products to deal with COVID.

The economic impact continues to be severe. UN ECLAC estimates that LAC's regional debt-to-GDP ratio rose from 68.9 percent in 2019 to an estimated 79.3 percent in 2020, making it the most indebted region in the developing world. 78 million Latin Americans (approximately 13 percent of the total) live in severe poverty.

## Political Developments

On 6 June **Peru** voted in leftist Pedro Castillo – the surprise candidate who led the first round – as President by a razor-thin margin of around 44,000 votes. The tortuous certification process was held up by claims by the right –wing opponent Keiko Fujimori – daughter of the disgraced and incarcerated former President Alberto Fujimori – of "systemic fraud". The military proclaimed neutrality. International observers gave the election a clean bill of health and the Organization of American States ruled out any "grave irregularities". Peru is badly divided between supporters of Keiko and former schoolteacher Castillo, who ran a campaign promising pro-poor reforms and radical change in the poorly regulated mining and gas sectors, etc. Keiko is also under trial for money laundering and fighting for her political life. After the resignations of 3 presidents since 2018, the political establishment has been discredited, with widespread dissatisfaction over the impact of the pandemic. The vote also revealed the divide between Peru's coast – 9 historically 'white' and coastal provinces accounting for two-thirds of GDP, won by Keiko – and the interior, 16 provinces with more indigenous and poorer citizens, won by Castillo. The coast dominates Peru's politics but the numbers game is slowly changing and the interior will have to be taken more seriously, as will the economic inequality. Castillo's party, Perú Libre however will hold only 28 percent of the 130 seats in Peru's unicameral legislature. Around 53 percent of seats are held by right-wing parties like Fujimori's.

On 6 June **Mexico** also went to the polls in the largest midterm elections in Mexico's history: 15 governorships; Chamber of Deputies (500 seats); 1,063 local legislature seats and 19,760 municipal posts. President Andrés Manuel Lopez Obrador (AMLO), who took office in 2018 at the head of his party MORENA, had a majority in both houses of Congress. The results diminished Morena's super majority from 253 to 190. His coalition Juntos Haremos Historia (Together We Will Make History – Morena, PT, PVEM) achieved a majority but AMLO will not find it easy to pass or amend laws, such as restricting the private sector's role in energy. He was pushing for a strong mandate to pursue his 'fourth transformation' (4T) of Mexico. His coalition was opposed by The Va Por México (Go For Mexico) coalition (PRI, PAN and PRD – traditional political parties). Morena did better in the local elections, gaining 10 governorships. AMLO remains the most popular politician in Mexico apparently, but since he cannot run for re-election after his single term ends in 2024, the future of Mexican politics may well see an interesting turn.

**Colombia** exploded with violence in protest against indirect taxes and higher direct taxes in several cities, culminating in police firing that killed 44 civilians by end May. NGOs report higher numbers of dead, hundreds of injured and arrested. Initial attempts by the authorities to describe the protestors as mostly left-wing terrorists and anarchists made matters worse. The proposals of the right-wing government of President Ivan Duque were not supported even by his mentor, former President Alvaro Uribe. The Finance Minister resigned and the proposals were withdrawn but protests continued through June. The Foreign Minister also resigned in early May, as did the Commissioner for Peace, who oversees negotiations with guerilla groups. Colombia, which has not had as much success as some Latin America peers with commodity exports, is witnessing a severe economic downturn and needs to mobilise resources to alleviate the crushing impact of the COVID pandemic. Its investment rating is close to junk status. Social security for the population with average per capita income of \$ 11,000 annually has been laudable, but expensive to maintain. Presidential elections are due next year and the left-wing challenger to Duque, former Bogotá mayor Gustavo Petro leads in the polls.

On 16 May **Chile** voted to elect representatives to a Constitutional Assembly to replace the 1980 constitution promulgated by dictator Augusto Pinochet, which privileged the military and big business. Privatised services such as health care, education, water, and pensions became targets of broad and violent anti-inequality protests in October 2019. New constitutions have been written in recent years as transitions out of military rule (Nicaragua in 1987 and Brazil in 1988) and as part of the leftist Chavista wave (Venezuela in 1999, Ecuador in 2008, and Bolivia in 2009). Chile is the richest country per capita in LAC, but one of the most unequal. The previous President Michelle Bachelet even included communist politicians in her coalition. Of 155 seats in the Assembly, independents won 48, the two major left-wing opposition lists secured 65 and the ruling right was reduced to 38. President Sebastian Pinera, who has lost considerable ground, declared "We are being challenged by new expressions and leadership. It is our duty to listen humbly and attentively to the message of the people," The country's stock market plunged more than 10 percent, and the Chilean peso approximately 2 percent against the dollar. The Assembly will have to agree on the constitutional provisions with a two-thirds majority and has 9 months – extendable by 3 – to complete its draft, which will then be put to popular vote.

Though the Biden administration has not announced lifting of any sanctions imposed on **Venezuela**, there are some green shoots that may indicate a turn in the relationship. President Nicolás Maduro in May released 6 jailed former executives of U.S.-based oil refining company Citgo to house arrest; he reformed the 5-member Electoral Council to include 2 prominent opposition members; allowed the World Food Program back into the country (to distribute international aid); scrapped a price control system and permitted dollar transactions for the first time in decades. Media reports indicate nascent interest in some US based funds to buy up some Venezuelan businesses that managed to survive. 'Interim' President Juan Guaidó continues to be recognized as such by around 50 countries, including the US, but is now merely a 'privileged interlocutor' of Europe. The Venezuelan opposition, already split somewhat between the 2 major opposition figures – Henrique Capriles, who lost to Maduro in a closely fought election in 2018, and Leopoldo Lopez, currently in exile in Spain – will be further weakened by the appointments to the Electoral Council. The US appears in a dilemma whether to reciprocate and negotiate with Maduro, with the Republican party advocating a continuing hard line, and differences within the Democratic party on the issue.

President Daniel Ortega's ongoing crackdown in **Nicaragua** against media and the opposition involved 19 arrested for "inciting foreign interference...applauding sanctions" against the Sandinista regime, including five candidates to the Presidency, six political leaders, a banker and also three former Ortega comrades in arms, all of them over 60 years of age. Reacting to international condemnation and a joint statement at the United Nations Human Rights Council, Ortega accused his opponents of being "agents of the Yankee empire," who "conspire against Nicaragua, to overthrow the government." Mexico and Argentina, after abstaining from a vote against Nicaragua at the Organization of American States, recalled their Ambassadors from Managua late June. Ortega and his wife – and Vice President – Rosario Murillo, have consolidated their hold on power, co-opting some key business interests. Ortega has managed to legitimise his re-election through a pliant Congress and electoral authority.

US Vice President Kamala Harris visited **Guatemala** and **Mexico** in the first significant engagement of the Biden administration with Latin America. This was Biden's signal of the seriousness with which he takes relations with immediate Latin American neighbours and a break with Trump's policies of threat and bluster. The priority remains the massive and continuing threat of poverty, violence and illegal immigration from Central America, with thousands massed on the southern Mexican border. Harris delivered a blunt message – illegal migrants would not be admitted. The visit followed \$ 4 billion in US aid and substantial investments by the US private sector. Also discussed were narco-traffic and corruption – the US seeks to strengthen judicial institutions in the region.

## Economic Developments

One effect of the COVID pandemic has been the slowing down of Foreign Direct Investment (**FDI**) in LAC. According to UN data, the region received approximately \$ 164 billion in 2019, which is expected to have come down drastically in 2020. US Treasury data reveals that in February 2021 US investors pulled out of **Brazil** (16.3 billion); **Mexico** (11.5 billion) and **Argentina** (6.1 billion), constituting approximately 25 percent of US investments. In 2019 Brazil got \$72 billion, and Mexico \$33 billion. According to UNCTAD's World Investment Report 2020 "The pandemic compounds both political and social unrest and structural weaknesses, pushing the region's economies into a deep recession and exacerbating challenges in attracting foreign investment,"

An announcement by China that it would impose, from 12 June, a tax of 30 percent per barrel of crude oil of certain heavy grades, sent shock waves through the **Venezuelan** establishment. China's 'decarbonization' strategy to reduce its dependence on fossil fuels targets very heavy Venezuelan crude, sometimes exported as highly polluting 'diluted bitumen', which would need to be diluted to fall out of the newly-taxed category. Venezuela's oil production has slumped to around 500,000 barrels per day this year, a third of what it produced before the sanctions went into effect and one in. Despite having the largest oil reserves in the world, the country has not had a single rig drilling for either oil or gas since September 2020. Venezuela owes around \$19 billion to China, which has a 49% stake in Sinovensa, a joint venture between state-owned PDVSA and China National Petroleum Corp (CNPC), producing about 140,000 barrels a day. One view is that China may be pessimistic about the Maduro regime's longevity, its ability, and intentions.

Chevron, the only US oil company still operating in Venezuela, was permitted to continue transactions with PDVSA "necessary for the limited maintenance of essential operations or the wind down of operations" till 1 December 2021. Chevron has had a special U.S. operating license exempting it from sanctions on Venezuela's vital oil sector, minus key activities like drilling and trading. The license also applies to oil service companies Halliburton (HAL.N), Schlumberger Limited (SLB.N), Baker Hughes (BKR.N) and Weatherford International. Bloomberg reports that Reliance is lobbying the Biden administration to allow import of Venezuelan crude in exchange for diesel, halted by Trump since October 2020.

In June **El Salvador** became the first country to recognise Bitcoin as legal tender. El Salvador's dollarized economy relies heavily on money sent back from workers abroad: nearly \$6 billion, around a fifth of GDP in 2019, one of the highest ratios in the world. President Nayib Bukele declared "It will bring financial inclusion, investment, tourism, innovation and economic development for our country...The government will guarantee the convertibility to the exact value in dollars at the moment of each transaction."

Even as **Argentina's** Economy Minister Martín Guzmán announced late June that the Paris Club had agreed to give his country until March 31, 2022, to pay the US \$ 430 million in instalments while the rest of the debt is renegotiated, a downgrade to the dishonourable category of "independent market" economies by MSCI (former Morgan Stanley) led to a crash in Argentina's stock market. The downgrade means the country is not worth considering, which translates to harsher conditions for access to international financing.

## Focus India-LAC

The loose legal regimen of the Caribbean was in evidence in late May, when fugitive Indian diamond merchant **Mehul Choksi** (uncle of the fugitive Nirav Modi), accused of fraud of around Rs.13,500 crores by Indian banks, appeared suddenly in the island state of **Dominica**. He was apprehended on the basis of an Interpol Red Corner notice. Choksi sought refuge by buying citizenship of the archipelago state of Antigua and Barbuda (A&B) in late 2017, just before the government of India began hunting him and Modi. India has Extradition Arrangements (short of a treaty) with A&B, but not with Dominica. The Prime Minister of A&B, Gaston Browne who had earlier claimed they could not extradite him without following a legal process, because as a citizen he enjoyed 'constitutional protection', claimed that by fleeing the island, Choksi had forfeited A&B's constitutional protection and asked the government of Dominica to deport Choksi directly to India. The issue fired up domestic politics, with the opposition on both islands accusing the ruling governments of depriving Choksi of his legal rights. The Eastern Caribbean Court, however stayed the deportation and the case was being heard by end June, obliging a team of Indian officials to return home on the chartered jet they had used to go to Dominica to seek Choksi's extradition. Dominica and A&B, like other island Caribbean states, offer citizenship to anyone who can pay/deposit certain sums of money. Among other benefits are the possibility of visa-free travel on their passports to several countries.

India's vaccine diplomacy suffered another blow end June, with **Brazil's** Ministry of Health deciding to suspend – and probably cancel – a contract with India's **Bharat Biotech** to purchase 20 million Covaxin doses for \$324 million through its Brazilian representative Precisa Medicamentos. The contract – delayed in execution because the Brazilian regulatory agency ANVISA approved emergency import of only 4 million doses on 4 June – came to notice after a Health Ministry official testified before a Senate committee that he faced pressure to greenlight the import of Covaxin despite irregularities in the invoices, and approve a \$45 million advance payment to a Singapore-based company. Media also reported that the price at \$15 a dose was higher than the vaccines offered by Pfizer. President Bolsonaro was implicated directly after reports emerged that he did nothing after being informed, though he claimed innocence and said no vaccines were purchased. Reports indicated the involvement of a close political ally of Bolsonaro. Bharat Biotech denied any wrongdoing and claimed that Madison Biotech, the Singapore company that invoiced the \$45 million is a marketing 'affiliate' company.