



GSJ: Volume 7, Issue 8, August 2019, Online: ISSN 2320-9186

www.globalscientificjournal.com

Amity University, Kolkata, India
rksanyal@kol.amity.edu

Latin American crisis and Dragon's New Silk Route Policy

By Rajib Kumar Sanyal, PhD
and
Anushka Bose, Aditya Chakraborty
B.Com. LLB
Amity University, Kolkata

While humans have engaged in trade since the earliest times, the importance of international trade has grown dramatically due to improvements in transportation and communication. International trade affects people on a daily basis, from the food people eat to the clothes they wear. Whether the effects have been positive, including increasing wealth and welfare, or negative, such as increasing unemployment and inequality, is hotly debated. International trade is very much in the public eye given disputes among major countries about adherence to rules, fairness, and sharing the benefits. Let us look into the Latin American scenario, and who is taking the advantages.

To know trade deficit and surplus at a glance:

When production cannot meet demand, imports from other nations increase. A trade deficit is an economic measure of international trade in which a country's imports surpasses its exports. It is a representation of an outflow of domestic currency to foreign markets. It is also referred to as a negative balance of trade (BOT).

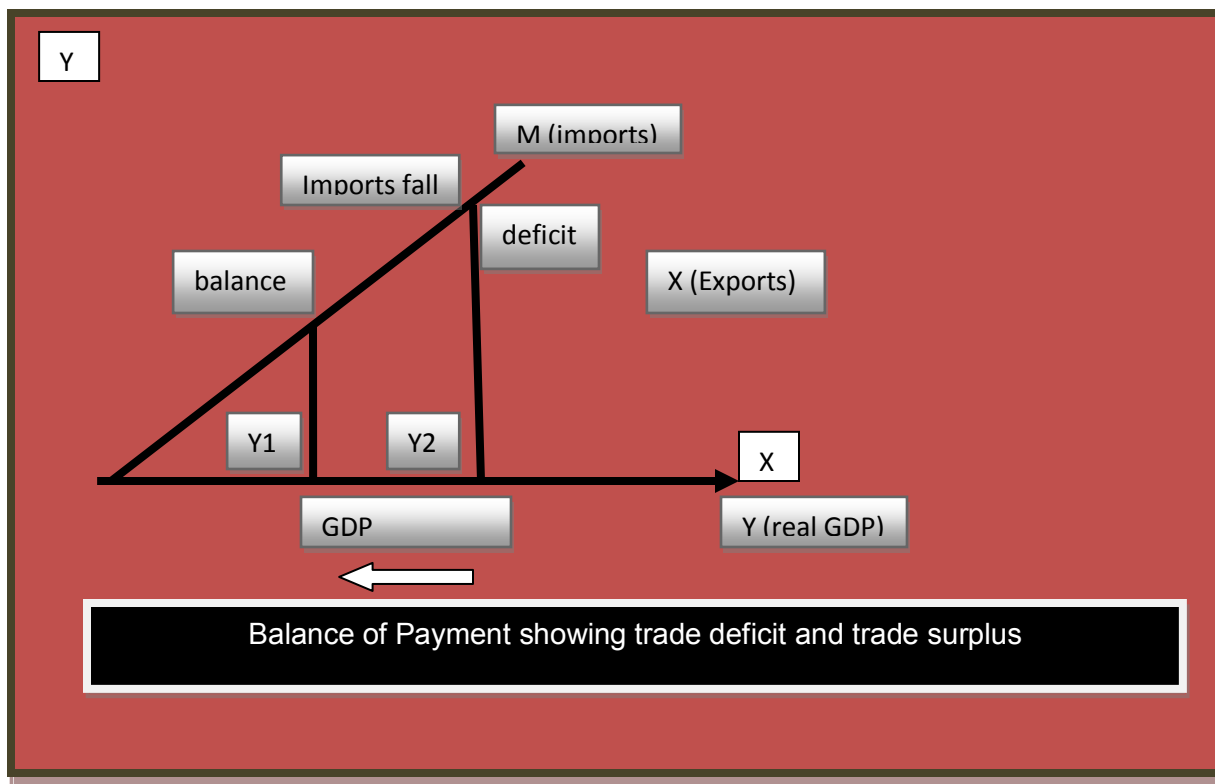
Mathematically Trade Deficit equals to the difference between the Total Value of Imports and the Total Value of Exports. It occurs typically when a country fails to produce enough goods for its residents. Trade deficit is not necessarily detrimental, because it often corrects itself over time. An increased import decreases the price of consumer goods in the nation, as foreign competition increases. The threat of inflation in the local economy decrease due to competitive prices and an increase in imports also increases the variety of goods and services in the market. A fast-growing economy might import more, as it expands, so its residents may consume more than the country can produce. Consequently, a trade deficit may indicate a growing economy.

A trade surplus is an economic measure of a positive balance of trade, where a country's export surpasses its imports. Trade surplus is a representation of a net inflow of domestic currency from foreign markets.

When solely focusing on trade effects, a trade surplus means there is high demand for a country's goods

strengthening of the domestic currency. Mathematically Trade Balance is equal to the difference between the Total Value of Exports and the Total Value of Imports. A trade surplus is generated when the result of the above mathematical computation is positive.

(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com



1. Latin America is experiencing its first region-wide economic downturn since 2009.

The IMF's revised World Economic Outlook projected in October that the region's economy would contract by 0.3% in 2015. This updated the IMF's previous prediction of 0.5% growth. The China-led commodity boom which powered much of South America's growth during the 2000s has slowed sharply since 2013. Low oil, coal and iron ore prices have hit the region hard. Inflation and unemployment have risen.

2. Brazil is contending with a sharp recession

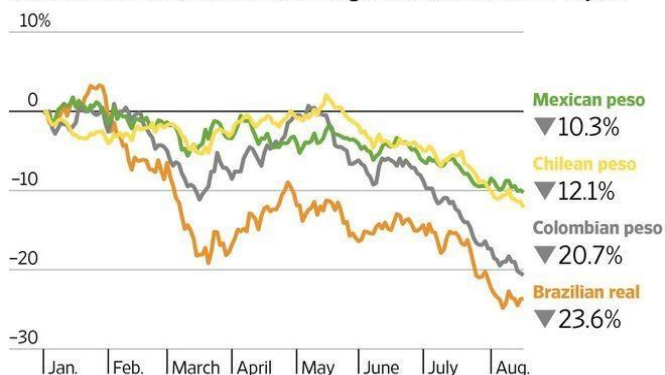
The bleak picture is partly due to a steep recession in Brazil – projected to be a contraction of 3% by the IMF – and slumping commodity prices. Other factors include a strengthening US dollar relative to national currencies and weak domestic demand.

(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com

Weighing Down

Major Latin American currencies have plummeted against the U.S. dollar as weak global growth hit these commodity-reliant economies.

Selected Latin American currencies against the U.S. dollar this year



3. Venezuela is dealing with inflation close to 100%

Venezuela's economy, which the IMF expects to have shrunk by 10% in 2015, is currently experiencing inflation which has soared close to 100%.

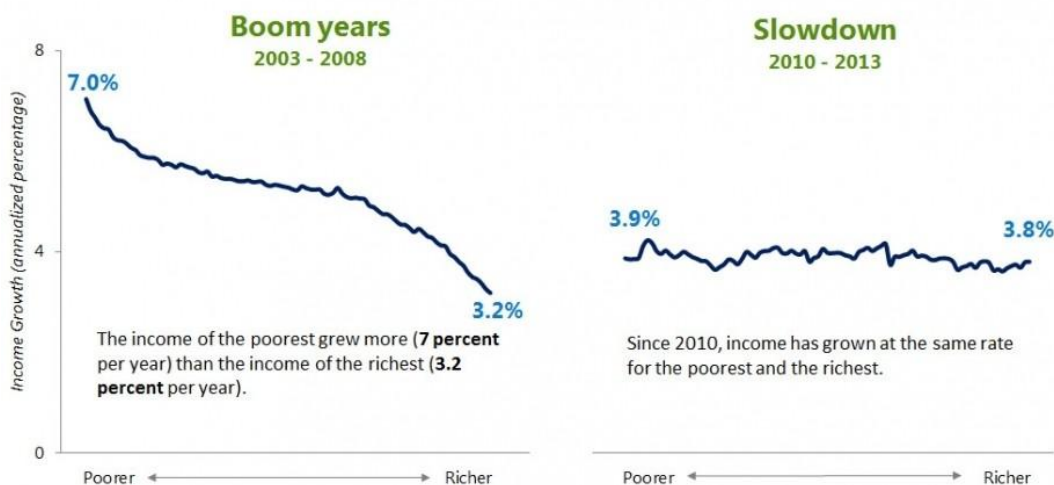
As well as recession in Brazil, Mexico has been experiencing slower than expected growth.

Argentina was expected to see some growth but has its own battles with high inflation and falling GDP.

4. Economic problems are bringing political change

Many Latin American governments have seen revenues drop and social instability rise. A wave of discontent has put the left-of-centre governments that have dominated South America's political landscape for more than a decade on the defensive.

Mixes of scandal, voter fatigue and economic difficulty have created an apparent widespread desire for change.



5. Things are expected to improve

The IMF expects the region to recover in 2016 to expand by 0.8%. The downturn is not expected to have an impact as deep as previous commodity downturns such as the debt crisis of the 1980s. With some

(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com

exceptions, Latin American countries have much lower external debt ratios and greater international reserves. This allows for greater flexibility in monetary policy as well as access to capital markets which reduces the likelihood of needing international loans which often carry heavy austerity requirements.

Argentina is on a rock face, Venezuela has a humanitarian crisis and Brazil is just exiting its worst-ever recession – so far, so Latin America. But some countries have shown a path to sustainable growth and others are now grasping the nettle of reform. Could an end to Latin America's long history of boom and bust finally be in sight?

Venezuela's refugee crisis is the largest in Latin American history. Worldwide, it is now second only to that of Syria. A staggering four million Venezuelans have fled their homeland, the majority since 2015. This number constitutes more than 12 percent of the country's total population. Leaving behind a collapsed economy and mounting repression, over one million Venezuelans have fled since last November. The UN projects that the number of refugees will climb to 5.4 million by the end of 2019, while other researchers have predicted several hundred thousand more.

No country in Latin America has escaped the impact of Venezuela's meltdown. Colombia, which shares a long border with Venezuela, now hosts the largest number of refugees—1.3 million, up from about 300,000 just two years ago. Another 710,000 Venezuelans traveled through Colombian territory in 2018 in transit to other destinations farther south. Peru hosts the second-largest number of Venezuelans (806,900), followed by Chile (288,200) and Ecuador (263,000). Caribbean states have smaller totals but the most refugees relative to their population.

Yet only a fraction of the international assistance dedicated to other major crises has been devoted to the outpouring of Venezuelan refugees. The United Nations High Commissioner for Refugees (UNHCR) and International Organization for Migration (IOM) asked the international community for \$738 million to assist migrant-receiving countries in Latin America and the Caribbean in 2019. By early July, international donors had contributed a scant 23.7 percent of the requested funds. The shortfall, in the words of one senior Bogotá-based aid worker, is a "recipe for disaster." Eduardo Stein, the UN special representative for Venezuelan refugees and migrants, pointed out that "Latin American and Caribbean countries are doing their part to respond to this unprecedented crisis, but they cannot be expected to continue doing it without international help."

None of the migrant-receiving countries in Latin America has the financial wherewithal to provide shelter, food, medical care, and employment to such large numbers of hungry and vulnerable people. Public health and education are already overextended and under resourced in many of the receiving countries

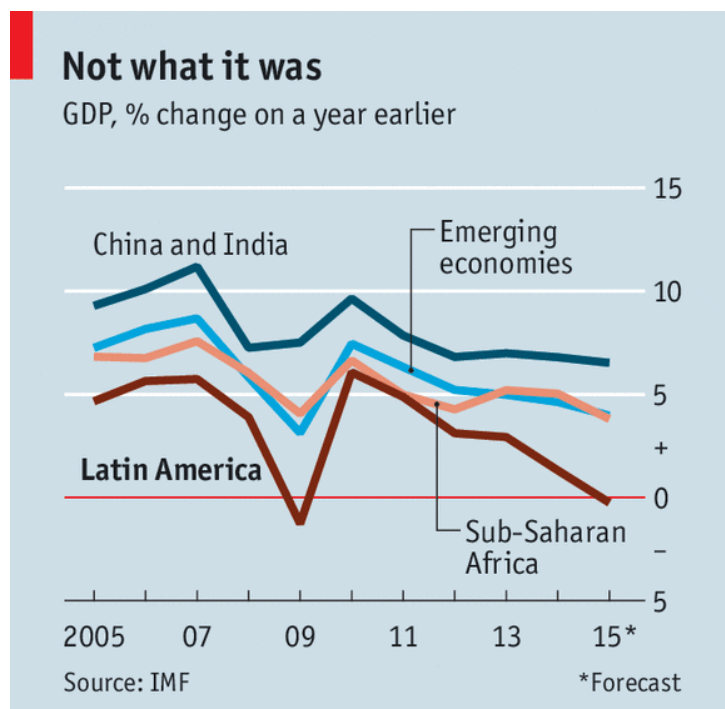
(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com



Over the past several years Latin America has become a strategic battleground which involves much more than merely “geopolitical power plays” between the USA vs China as many commentators are asserting. Of course this is not to say that there are no geopolitical battles occurring. The entire western sponsored regime change operation in Venezuela couldn’t be understood unless one realized that China and Russia see Venezuela as a strategic ally in the Americas and a future zone for Belt and Road projects which are sweeping across the world... but something more is happening.

Over the past three years, over 17 Latin American and Caribbean (LAC) nations have signed onto the new operating framework of the *Belt and Road Initiative* which extends far beyond the limited China-to-Europe corridor which many presumed it to be when it was announced in 2013. With its focus on long term planning and inter-connectivity, China is already number one in vital infrastructure investments globally and while not number one in overall trade in the Americas, has now produced over six times more investment into Latin American energy infrastructure than the World Bank.

(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com



Economist.com

This new paradigm has been a breath of fresh air for many nations of the south that have been gripped by Western drug money laundering, poverty, debt slavery and organized crime which has been kept in place by over four decades of IMF-World Bank dictates enforced by London/Harvard trained economists positioned as local governors over the bodies of nationalist leaders.

In spite of the 17 nations on board the BRI, the big four powers (Mexico, Argentina, Brazil and Colombia) have not yet joined, which has been a frustrating obstacle for the greater vision of integrated infrastructure to blossom. However, in the past few weeks, even this has begun to change.

Colombia and the BRI

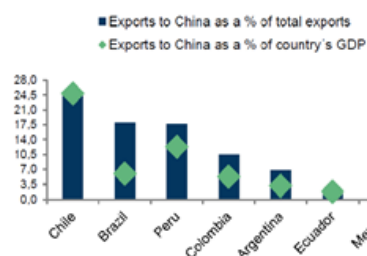
At a July 29-31 state visit to Beijing, Colombia's President Iván Duque embraced a long term perspective with China (though not fully joining the BRI) when he spoke to 200 Chinese businessmen saying that China could help *"transform Colombia into a food basket for the world"* and that Colombia should be China's *"golden gate"* into South America. He invited China to help with projects to develop infrastructure, education and science calling for *"a Colombia-China initiative for the next 40 years"*.

The specific program to transform Colombia was outlined by Duque as a "productive corridor" connecting the Eastern High Plains with the Pacific Port of Buenaventura through transportation corridors across the Andes, and a Sea Motorway 2 connecting the Gulf of Uraba in the Caribbean and several oil fields. While only 8 million hectares of agricultural land are currently used, Colombia's full potential of 24 hectares will become developed once this initiative is built.

On the BRI itself, Duque said that it should be *"the conceptual umbrella for this project to materialize"*.

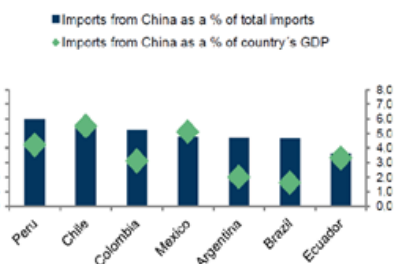
(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com

Latin American exports to China



Source: National Statistical Institutes, Central Banks and IMF; year = 2014

Latin American imports from China



Source: National Statistical Institutes, Central Banks and IMF; year = 2014

As the infamous 1999 photograph of the President of the NYSC embracing Raul Reyes (FARC narco-terrorist leader) demonstrates, Wall Street and London financiers have literally kept Colombia under the clutches of narco-traffickers for decades, resulting in a culture of organized crime, terrorism, and impoverishment that only the BRI can solve. In the 21st century over two million Colombians have no access to electricity. With Colombia's involvement in the BRI, every Andean nation in South America would be on board.

A Sea Change for Argentina

Since Mauricio Macri's December 2015 victory, Argentina took a slide into insanity. At one time representing a powerful force of opposition to the international financiers and vulture funds under the Peronist government of the late Nestor Kirchner and his wife Christina, Argentina under Macri has once again become a bankers' fiefdom which brought the nation slavishly back under the whip of the financial oligarchy. Under Macri, austerity became the new norm and payment of debts the new priority for Argentina, while the vast majority of large scale infrastructure projects begun by President Kirchner were cancelled or postponed.

Somehow Macri was surprised that his monetarist strategies failed to win him the love of the people as unemployment continued to rise, and inflation topped 55% with no hope in sight.

The effects of the population's suffering under the IMF's monetarist diktats resulted in a surprise August 12 pre-election vote which gave Macri's opponent Alberto Fernandez 47% of the votes (compared to a mere 33% for sitting President). Although this was only a pre-election vote, Fernandez demonstrated that he will likely become the President in the November elections. What is also notable is that Fernandez (a former Chief of Staff to Nestor Kirchner) is partnered on the *Front for All* ticket with his Vice-Presidential running mate Christina Fernandez de Kirchner herself.

Fernandez and Kirchner promise to re-organize the unpayable IMF debts and end the age of austerity. Of course, speculators showed their disapproval of this return to a national power by collapsing the Argentina peso by 15% on August 13 and threatening more punishment if the "populist Peronists" are elected.

With Kirchner's imminent return to power, many presume that the burgeoning golden age of China-Russian relations will blossom once more. Under Kirchner's leadership a powerful "Argentina-China Integral Strategic Alliance" was formed along with 20 major treaties between the nations.

(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com

Some of the projects begun under Kirchner which Macri wasn't able to kill involve the \$4.1 billion Patagonia Hydroelectric project where two dams are being built on the Santa Cruz River, and also the \$8 billion plan to build two nuclear power plants (one Canadian CANDU and one Chinese design). The dam represents the first hydro project built in over a quarter century and even though Argentina was the first Latin American country to go nuclear with the Atucha I plant in 1974, very little was permitted since then.

Neo-Liberal Fractures in Brazil

While the current right wing regime under Jair Bolsonaro has turned away from a friendly relationship with China on orders from Washington, Chinese-sponsored projects begun under Lula da Silva and Dilma Rousseff were not so easy to kill with Brazil still receiving the second highest investment of Chinese capital amounting to \$54 billion. Some BRI-related projects underway currently involve the Ultra High Voltage electricity transport system under construction since 2011 by China's State Grid subsidiary in Brazil. This incredible project also known as the Electricity Superhighway carries high voltage electricity with very little loss of power over 2000 km from the northern Belo Monte Dam to the impoverished and populated southeast providing cheap electricity to 22 million people.

In agriculture, China imported 50 million tons of soybeans (80% of Brazil's soy exports) and 560 tons of beef (40% of total) in 2018, and this is only expected to rise.

The *New Development Bank* is also setting up operations in Brazil and will begin emitting funds outside of the control of the IMF/World Bank shortly and Brazil's hosting of the 11th BRICS Summit on November 13 is sure to dovetail with Chinese and Russian investment strategies in the South. Under a re-organized financial system, such new institutions as the New Development Bank, the Silk Road Investment Fund, Asia Infrastructure Investment Bank would take on leading roles in providing long term productive credit for projects globally.

When responding to Bolsonaro's attacks on Kirchner and Fernandez of Argentina, Fernandez responded saying *"with Brazil, we are going to get on splendidly. Brazil will always be our main partner. Bolsonaro is a passing phase in the life of Brazil- just as Macri is a passing phase in the life of Argentina"*.

Mexico Way

Mexico gained a huge victory with the election of nationalist President Andres Manuel Lopez Obrador in 2017 who has fought for a Mexico/Central America Development Plan since his election as an alternative to the current IMF/World Bank paradigm. This plan which is very much in harmony with the Belt and Road model involves southern Mexico and the "northern triangle" of El Salvador, Guatemala and Honduras which would see the construction of a cross Isthmus and North-South railroad system and ports along with a new electricity grid and agro industrial developments for all four nations.

Although AMLO's impulses favor joining the BRI, immense pressure has withheld this leap from occurring to this point.

China May Trade Surplus Larger than Expected

China's trade surplus soared to USD 41.66 billion in May 2019 from USD 23.42 billion in the same month a year earlier and easily beating market consensus of a surplus of USD 20.5 billion. This was the largest trade surplus since December last year, as exports rose unexpectedly while imports dropped the most in nearly three years.

Exports rose by 1.1 percent year-on-year to USD 213.85 billion in May, recovering from a 2.7 percent

(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com

decline in the previous month and defying market expectations of a 3.8 percent fall. The rebound in overseas sales came in amid efforts from companies to rush out shipments to avoid higher US tariffs that US President Donald Trump is threatening to impose in a rapidly escalating trade conflict. Sales of unwrought aluminium and aluminium products went up 10.5 percent from a year earlier to 536,000 tonnes, and were up 7.6 percent from April's 498,000 tonnes.

Also, exports of coke & semi-coke rose 4.8 percent year-on-year to 0.88 million tonnes and jumped 51.7 percent from April's 0.58 million tonnes. In addition, exports of rice surged 236.3 percent to 343,000 tonnes but fell 2.3 percent from April's 351,000 tonnes. In contrast, sales of steel products dropped 16.6 percent to 5.74 million tonnes and were down 9.3 percent from the previous month's of 6.33 million tonnes; while those of coal declined 39.6 percent to 0.32 million tonnes, and dropped 36 percent from April's 0.5 million tonnes. Exports of rare earths slumped 18.2 percent from a year ago to 3,639.5 tonnes in May and were down 15.9 from April's 4,328.9 tonnes.

New Growth Paradigm

Green Depopulation or a New Growth Paradigm, after Panama became the first Latin American nation to join the BRI in 2017, Uruguay followed suite, and was quickly joined by Ecuador, Peru, Bolivia, El Salvador, Chile, and Costa Rica. Caribbean nations on board involve Barbados, Jamaica, Guyana, Trinidad and Tobago, the Dominican Republic and Antigua-Barbuda.

Western assets embedded in the LAC political structures are not only easy to identify due to their rejection of the BRI and embrace of Wall Street, but also for their blatant support of "green" energy strategies which seek to shut down carbon emitting oil, coal and even nuclear power. An example of this hive was made evident by coalition of former energy secretaries of Argentina that wrote a memo calling for a scrapping of nuclear in preference to a total wind/solar strategy in obedience to the oligarchs that wrote COP21 and the Green New Deal. For any thinking citizen, this is merely another name for depopulation.

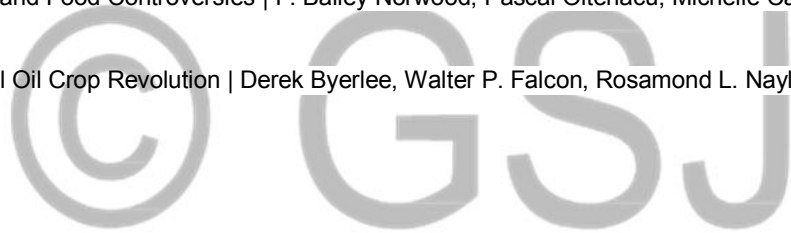
Accurately capturing the principle of what is happening across South America and the world as a whole, Costa Rica's ambassador to China recently said that China is *creating* a new paradigm for development which may be as important perhaps as the Bretton Woods was after World War II and that China is calling upon the whole world to design together what the New Paradigm is going to be.

(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com

Acknowledgement: I am immensely grateful to Prof. (Dr.) Dhrubajyoti Chattopadhyay, The Vice Chancellor of Amity University, Kolkata for his never ending inspiration.

Sources: -

1. International Trade: Theory and Policy | Steve Suranovic, George Washington University ISBN 13: 9781936126446
2. International Economics: Theory and Policy | Paul Krugman, Maurice Obstfeld, Marc Melitz | Pearson
3. International Economics: Trade and Finance, 11ed, ISV (WSE) | Dominick Salvatore
4. Macroeconomics: Theories and Policies, 10e | Richard T. Froyen
5. Optimal Monetary Policy Under Uncertainty | Richard T. Froyen | Pearson
6. International Business: The New Realities | S. Tamer Cavusgil, Gary Knight, John Riesenberger | Pearson
7. Agricultural and Food Controversies | F. Bailey Norwood, Pascal Oltenacu, Michelle Calvo-Lorenzo | Oxford
8. The Tropical Oil Crop Revolution | Derek Byerlee, Walter P. Falcon, Rosamond L. Naylor | Oxford



(Dr.) Rajib Kumar Sanyal, PhD
Associate Professor | Economics
Amity University, Kolkata, India
rksanyal@kol.amity.edu
sanyalrajib10@gmail.com