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ROUND TABLE

The Challenges Facing Latin America after COVID, Part 1

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Dr. Evan Ellis, Latin America Research Professor for the U.S. Army War College Strategic Studies Institute, talks to Haverford School headmaster Dr. John Nagl about the challenges and opportunities that will confront the incoming Biden administration in Latin America and the Caribbean. This article is the first of a two-part look at key strategic issues across the region.

John Nagl: How do you expect COVID-19 to impact the dynamics of the region?

Evan Ellis: The pandemic will be with us for a while in Latin America and the Caribbean. Many nations in the region are not expected to vaccinate substantial parts of their populations until 2022, and some such as Nicaragua will still be struggling with vaccinations well into 2023. COVID-19 has also exposed weaknesses in public health systems, compounded by socioeconomic factors and

poor policy responses in some countries, with the result that although Latin America and the Caribbean has 18% of the world's COVID-19 cases, it has 27% of COVID-19 deaths, more than 546,000 as of mid-January.

The pandemic reinforces multiple interdependent challenges in the region likely to leave it poorer, more fiscally constrained, with greater social unrest, more leftist populist governments, and an expanded presence of the People's Republic of China.

With respect to poverty, the January 2021 migrant caravan from Honduras illustrates how the shuttering of businesses and evaporation of informal sector opportunities due to the pandemic, coupled with limits in the ability of governments to compensate, to create long-term economic damage affecting millions.

In fiscal terms, the money spent on the COVID-19 response, and the associated debt incurred, will now force governments across the region to cut budgets, postponing investment and limiting their ability to advance development and respond to serious needs. Colombia's debt climbed by approximately 10% of gross domestic product (GDP) in 2020.

The adverse effect of the pandemic on citizen wellbeing will likely lead to an increase in crime as social distancing measures are relaxed. Already, there are anecdotal reports that home invasions and other forms of crime have increased, although citizen reluctance to risk contagion by waiting hours in police stations or other high-risk reporting sites arguably has suppressed reporting.

Regarding social unrest, the sources of citizen frustration that gave rise to major protests in Ecuador, Chile, and, to a lesser extent, Colombia in 2019, have been supercharged by the pandemic. COVID-19 has worsened all of the factors that contributed to those protests, including unaddressed economic need and crime. It has also fueled new grievances, including corruption associated with the government COVID-19 response, criticisms of that response, the lack of capacity in the health sector, disagreements with the imposition of social distancing and other control measures, or the failure to do so, and budget shortfalls. A range of current protests are directly or indirectly linked to the pandemic and government response, from the burning of the Congress in Guatemala, to street protests in Chile, to demonstrations over payments owed to municipal governments in El Salvador, to the indigenous march on Bogota in Colombia.

The pandemic has helped the populist left in the region, giving authoritarian governments in Venezuela and Nicaragua justification to clamp down on protests. It has further contributed to difficult conditions which have created an opening for

the left to win in Ecuador's elections, whose first round is in February. It similarly advances chaos which could open a space for the left to prevail in Peru's fragmented political landscape in April, or through the writing of a new constitution in Chile as its Constituent Assembly is selected in the same month.

Nagl: How do you see COVID-19 impacting China's position in the region?

Ellis: The pandemic will facilitate a significant expansion of China's position in the region, albeit with some delay in playing out and accompanied by controversy over the role of Chinese commercial, political, and other activities and associated influence.

China's COVID-19 diplomacy has won it some short-term influence and goodwill, but it has also caused some problems. While the PRC provided or sold personal protective gear, medical equipment, and tests, some of those goods proved defective. In the case of Peru, 1.4 million COVID-19 antibody tests that the government bought from the Chinese firm Orient Gene Biotech proved to have an excessive rate of unreliability, contributing to the takeoff in cases in that country. In Brazil, the vaccine developed by Sinovac proved to have only a 50% rate of efficacy, amidst criticism over the transparency of the results, compared to success levels in the 90% range for Western vaccines. Yet, the role of China as a vaccine provider for many countries has also expanded its leverage with governments, as illustrated by Brazil's attempts in January 2021 to negotiate with the PRC to get more vaccines to overcome its shortages.

China's strong economic recovery, with 7.9% GDP growth forecast for 2021, has increased China's importance as a purchaser of the region's exports, particularly as economic performance in Latin America's other commercial partners, such as the United States, the European Union, and the region itself, continues to be weak. As an example, Brazil's soy shipments to the PRC in September 2020 were up 51% over the prior year, reflecting both increased PRC demand and Brazil's role as beneficiary of the U.S.-China trade war.

Latin America's continuing economic woes, combined with the relative weakness of traditional Western investors, have also increased the appeal of the PRC as a support of loans for fiscally constrained governments, as well as work projects involving PRC-based firms. The government of Ecuador, for example, agreed to a new \$2.4 billion line of credit. In Mexico, where Chinese companies are already participating in the Andres Manuel Lopez Obrador (AMLO) government's high-priority Tren Maya infrastructure project and the modernization of the Dos Bocas refinery (as Western contractors pull out), the PRC is becoming increasingly

attractive as an option for funding and working the government's key electricity, oil, and transportation infrastructure projects in an environment increasingly perceived as hostile by Western investors.

China's advance in the region is also fueled by (and fuels) the survival and spread of leftist populist regimes. Since returning to power, the Peronists in Argentina, who committed to numerous projects with the PRC during their prior time in office, have already committed to a \$4.7 billion expansion of the Belgrano Cargas rail system. In Venezuela, PRC-based entities, which once moved cautiously in the face of U.S. sanctions and the political and economic crisis of the leftist populist Maduro regime, are once again taking deliveries on Venezuelan oil and are poised to expand other business. The return of the leftist populist MAS party in Bolivia to power in November 2020 is likely to similarly facilitate the continuation of the significant array of infrastructure construction and other projects with the Chinese contracted during the prior Evo Morales regime.

As the region's pandemic-related economic challenges lessen, as occurred following the 2008 global economic crisis, Chinese companies are also positioned to expand their position through acquiring assets being sold off by Western companies, which seek to shore up their financial position by selling off assets in poorly performing Latin American markets. The \$3 billion acquisition of the Chilean electricity firm Naturgy by State Grid in November 2020, and the \$888 million acquisition by China Communications Construction Company (CCCC) of a 30% stake of the Portuguese company Mota-Engil, with a significant presence in Latin America, highlight that the process has already begun.

Because China's expanding position will occur in the context of a Latin America with more poverty, crime, and social mobilization, it will create significant challenges for the companies involved, and dilemmas for the Chinese government, in how to use their growing security ties and leverage within Latin American governments to protect their people and operations.

Nagl: What is the outlook for Venezuela? What are the potential impacts on its neighbors?

Ellis: The status quo will likely continue in Venezuela during the coming year, with a slight easing of political and economic pressures on the de facto Maduro regime and expanded refugee outflows possibly exceeding 7 million people. There are, however, some possibilities for sudden change through the involuntary removal of Maduro, which could be precipitated by, and/or precipitate, a major breakdown in public order in Caracas and the interior of the country.

Despite Venezuela's downward spiral, it is currently extremely hard to move away from the status quo. The military, Bolivarian National Guard, and others affiliated with the regime have observed the constant stream of legal actions against Chavistas for their involvement in criminal activities, including the 2014 attempt to detain and extradite Hugo Carvajal from Aruba, the arrest in Haiti and subsequent conviction of first lady Cilia Flores' nephews for narcotrafficking, along with the multiple Justice Department indictments published against regime members. Many arguably view Maduro with distain and worry that the country's downward spiral will ultimately end badly for them, so they are impeded from acting against Maduro in any specific moment out of fear that doing so will ultimately unleash chaos and possibly lead to a new government that will hold them accountable for the crimes they have committed under Chavismo. Cuban intelligence, thoroughly embedded in the Venezuelan military, government, and society, will continue to foil any plot with relative ease, until the time when Cuba itself bets against Maduro. The Colombian National Liberation Army (ELN), which was brought in by Maduro to displace the sindicatos and organize the illegal mining sector (which is increasingly important for regime revenue), and FARC dissidents also operating in the country similarly cannot permit a stronger regime in Caracas, which could deny them access to the territory in which they recruit, generate revenues, maintain their arms and resources, and otherwise have sanctuary from the Colombian and other authorities pursuing them.

The effective elimination of de jure President Juan Guaido's government and others opposing Maduro from the National Assembly through fraudulent elections in December 2020 eases some political pressure on Maduro. Iranian deliveries of refined petroleum products and Russian and Chinese imports of sanctioned Venezuelan oil show that Maduro's allies are increasingly betting on the continuation of his regime. These relationships provide resources on top of the revenue from illegal mining and narcotics, and the extortion of remittance flows, which help sustain the regime. The growth of the left in the region, including recent elections of sympathetic governments in Argentina, Bolivia, and the increasingly likely victory of leftist populist Andres Arauz in Ecuador's February elections, further eases pressure on Venezuela in multilateral institutions, such as the Organization of American States (OAS).

While the Biden administration may explore dialogue with Maduro, and could lift some sanctions for humanitarian reasons, Secretary of State Antony Blinken's labeling of Maduro as a "brutal dictator" suggests the administration will not turn a blind eye toward the transgressions of the Maduro regime.

Despite the stability of the status quo, likely new initiatives by the Biden administration, reinforced by the increasing economic, health, and external judicial pressures, could lead members of the regime or military to attempt to take advantage of a new and fleeting window of opportunity to replace Maduro with different leadership superficially more acceptable to the West. Such a move could possibly lead to the lifting of some Western sanctions while protecting certain individuals from prosecution, particularly if Cuba sees collaboration with such a change in its interest. The uncertainty that could accompany an assassination or coup attempt, however, could precipitate a civil war, with the ELN, FARC dissidents, sindicatos, colectivos, National Guard and military units, and other armed actors all defending their interests in an unpredictable, bloody fray.

Nagl: What are the key issues and opportunities that will present themselves to the Biden administration in the Caribbean?

Ellis: The Caribbean faces six areas of challenge: the economic crisis, Venezuela, climate change, the China challenge, Haiti, and Cuba.

First, the region is in desperate economic straits. Because of the pandemic, tourism to the region is down 75%, with GDP falling 6.2% for 2020.

Second, Venezuela has become not only an economic and health challenge for the region, but also a crime and security one as well. Refugees departing Venezuela for the Caribbean have already overwhelmed the small populations and support infrastructure of nearby Caribbean islands; this has also created other problems, such as piracy and new criminal patterns. In addition, for neighboring Guyana, Venezuela's assertion of control over Guyana's Essequibo region, representing more than 2/3 of the latter's territory, as well as associated waters in which substantial oil deposits are located, has become an increasing security threat to Guyana and has impeded its development of those resources.

Third, for the Caribbean, climate is both an issue of livelihood and national security. This past year's record hurricane season, with 30 named storms and 13 hurricanes, highlights the escalating threat to the Caribbean, even as the Bahamas and other states continued to recover from the record 2019 hurricane Dorian. The incoming Biden administration's increased sensitivity to climate issues, including the naming of former Secretary of State John Kerry to be climate envoy on the National Security Council, may create new opportunities for Caribbean engagement with and support from the United States on the issue.

Fourth, the region must effectively manage the opportunities and risks presented by the expanding presence and associated influence of the PRC. China's investment, political and military engagement, and other activities arguably exceed

that suggested by the modest size of Caribbean resources and markets. Chinese projects in the Bahamas include the Freeport container port, the associated Gran Bahama Port Authority, the \$4.2 billion Baha Mar resort, and ongoing major tourism investments in the Pointe and the Gran Lucayan cruise ship port. In Jamaica, China Merchant Port holdings recently acquired and possibly plans a major expansion of the port of Kingston, while China Harbour has invested \$730 million in the North-South toll highway, receiving in exchange 99-year leases on real estate adjacent to the highway, which will become more valuable once the Chinese complete the highway. In the Dominican Republic, which switched diplomatic relations to the PRC from Taiwan in 2018, the Chinese have reportedly promised \$3 billion in investments, including possible transformation of Manzanillo into a megaport. In Trinidad and Tobago, the Chinese have a stake in the Atlantic LNG refinery complex, and have proposed construction of a \$500 million drydock facility at La Brea and a \$106 million industrial park. In Cuba, Huawei dominates the local telecom market. Chinese firms are doing construction in the port of Santiago, and have a presence in the Mariel Free Trade Zone. As occurred under the Obama administration, Cuba's value to China could expand even further if the Biden administration restores all or part of its access to U.S. trade and tourism. The Caribbean, along with Central America, is also the location of five of the nine states in the region that continue to diplomatically recognize Taiwan and could thus become a focus of PRC diplomatic maneuvering if Beijing wishes to test the resolve of the Biden administration.

Fifth, the uncertain future of Haiti, a source of refugees, guns, and cholera for neighboring states, in addition to its own profound humanitarian needs, will continue to impact the region. In February, the term of President Jovenel Moise (who has been ruling by decree since March 2020 following the end of Congress' term) formally ends. Protests calling for his resignation are already escalating, reinforcing the stresses from endemic poverty, COVID-19, and street gangs, whose power often exceeds that of government authorities.

Sixth, the future of Cuba's engagement with the region has taken on increased importance, especially considering President Joseph Biden in the White House and Blinken's commitment to re-engage with the island state. Indeed, beyond the issue of U.S. policy toward Cuba itself, the latter's contribution to the survival of the Maduro regime in Venezuela and the contribution of Venezuela's oil and other resources to Cuba's survival raise the possibility of new initiatives involving Cuba to secure democratic transition in Venezuela.

Overall, the incoming administration will have the opportunity to broaden the use of multilateral coordination in the region, something within the purview of the experience that Blinken and National Security Advisor Jake Sullivan bring to the table. The European Union has particular equities and sources of experience and leverage in the region, including the Kingdom of the Netherlands, with its territories Aruba, Bonaire, Curacao, and Monserrat and its relationship to its former colony Suriname. Similarly, Great Britain, Canada, and India each have special historical, commercial, and population ties to the region, including the important Indian diaspora in Guyana, Suriname, Trinidad and Tobago, and elsewhere in the Caribbean basin.

Although it is not clear whether Vice President Kamala Harris will play a special role in the Caribbean, but her Indian and Jamaican heritage is potentially a powerful potential bridge to Afro-Caribbean and Indo-Caribbean populations and their governments.

Nagl: How are the recently elected new regimes in Guyana and Suriname doing? What opportunities and challenges face them as oil production and associated business take off there?

Ellis: Guyana and Suriname represent bright spots and significant opportunities for the United States in the region although with significant accompanying challenges. Both represent recent, important triumphs for democracy in the Caribbean. The August 2020 inauguration of Irfaan Ali People's Progressive Party government in Guyana was a victory for the country's electoral and legal institutions, as well as a significant accomplishment for the Caribbean community (CARACOM), which played a key role as a partner in helping Guyana overcome an extended constitutional crisis and election with numerous legal disputes. Similarly, the peaceful transfer of power from convicted murderer and strongman Desi Bouterse to the Progressive Reform Party-led (VHP) coalition government of Chan Santokhi in July 2020 arguably bolstered the international standing of that nation, long neglected by the international community, and opens doors for its expanded participation in regional affairs. It also represents the first time in the post-independence period that the two countries have been simultaneously ruled by parties with a substantially Indian ethnic base. The warm coordination between the leaders—from President Santokhi's attendance at President Ali's inauguration in August, to their subsequent meeting in November in Paramaribo to coordinate on a range of regional issues (including the Corentyne River bridge connecting their countries)—has been heartening to watch.

Guyana has arguably gotten off to a good start with President Ali. Its 30.9% GDP growth in 2020 is a record for the region, reflecting the initial expansion of oil production. The January 11-13 visit by the head of U.S. Southern Command Admiral Craig Faller as well as possible incorporation of Guyana into the Edgemont Group supporting cooperation against the criminal use of the financial system are promising signs.

Guyana faces five challenges: First, it must rebuild unity and trust within its society, particularly with its Afro-Guyanese and Indo-Guyanese populations, in the wake of the bitterly contested elections and a constitutional crisis. Doing so includes ensuring perception by citizens of equitable distribution of benefits accompanying its oil wealth. Second, the Ali government must avoid substantial corruption and the perception thereof as new oil wealth comes in. Third, it must carefully manage the role of the PRC in its rapidly expanding economy. PRC-based firms already have a powerful presence in the petroleum, construction, mining, telecommunication, and other sectors and are positioned to expand with possible new megaprojects, such as the construction of an improved highway from the Brazilian border at Latham to the coast (possibly including the eventual construction of a new commercial port at Berbice) and the possible resurrection of the Amaila Falls hydroelectric project. Fourth, it must manage the multidimensional challenges presented by its neighbor Venezuela, including thousands of refugees entering the country (often overwhelming the resources of the small towns along the coast and in the interior of the country) and the Maduro regime's claim on Guyana's Essequibo region, representing 2/3 of the national territory. Finally, the new government must assert effective control and oversight over its large and expanding oil operations. The incoming government's delay in approving the Payara project while it reviewed the terms and agreements made by the outgoing government, for example, became a source of polemic within the country.

In Suriname, the VHP-led coalition government of Chan Santokhi has moved cautiously, including with respect to the final disposition of convicted former President Bouterse, as well as with attacking corruption. Its pace of action is understandable, insofar as it came to power in the middle of the COVID-19 pandemic and is a delicate coalition, including former Bouterse ally Ronnie Brunswijk, whose own speculated connections to illegal mining and other criminal activity have long been a subject of discussion. Suriname also stands to benefit from the discovery of oil deposits, which are substantial relative to its population of 750,000. On the negative side, it also must deal with organized crime associated with narcotics flows from Venezuela through Paramaribo to Europe, challenges from illegal timber and mining activities in the interior, and its own management of China's commercial presence and associated influence in the country, in the

context of its own ethnic Chinese population, which arguably represents one of the highest proportion and most economically and politically influential Chinese populations in the region, alongside Panama.

The views expressed in this article are those of the author alone and do not necessarily reflect the position of the Foreign Policy Research Institute, a non-partisan organization that seeks to publish well-argued, policy-oriented articles on American foreign policy and national security priorities.



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