HOUSE OF COMMONS

Foreign Affairs Committee

Oral evidence: Global Britain and South America, HC 1617

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Watch the meeting

Members present: Tom Tugendhat (Chair); Ian Austin; Chris Bryant; Mike Gapes; Stephen Gethins; Priti Patel; Royston Smith.

Questions 50-101

Witnesses

I: Dr Julia Calvert, Lecturer in Political Economy, University of Edinburgh, Dr Peter Collecott, former UK Ambassador to Brazil, and Michael Reid, Writer-at-large/columnist: Latin America, The Economist.

Examination of witnesses

Witnesses: Dr Calvert, Dr Collecott, and Michael Reid.

Chair: Welcome to this afternoon's session of the Foreign Affairs Committee. I thank our three witnesses for coming. Before we start, are there any declarations?

Chris Bryant: Yes, I have one: ABColombia paid for me to go to Colombia last year to see indigenous peoples all over Colombia.

Q50 **Priti Patel:** Good afternoon. I will begin by focusing on economic policy and key economic drivers. Starting with Mr Reid, will the panel assess what this year holds in store for economies across South America? Please try to be specific and home in on any key drivers or external factors, and also feel free to draw on the impact of political stability on economies.

Michael Reid: Thank you very much for inviting me. It is an honour and a pleasure to be here, and it is great that the Committee is taking an interest in this region. I know that some of you have been interested in it for a long time, but not everybody in Britain is.

Latin America as a whole is going through a tough economic period. Between 2004 and 2012, average annual growth in the region was around 4%. From 2013 until now, growth in the region as a whole has only been around 1%, and per capita income has actually become slightly smaller over the last few years.

The second point to make is that, more than is usually the case, there are huge economic divergences within the region. Venezuela, which you all know about, now has an economy about half the size that it was four or five years ago. Brazil entered the deepest recession in its history in 2015-16 and is recovering very slowly. Argentina entered recession again this year. It is probably at the trough in this quarter and will start recovering slowly. Countries on the Pacific seaboard and others are growing at 3% to 4% in most cases. Mexico is at around 2%, and countries such as the Dominican Republic and Panama are at about 5% or 6%. There is huge variation.

I think that we will see a continuing slow recovery in most countries this year. The reality is that many South American countries face the end of the commodity boom. Most of their exports are raw materials, which is not true of Mexico and Central America. Latin America faces two structural economic problems. One is that its productivity record is very poor, and the other is that it is starting to hit demographic constraints, having had a demographic bonus for the last 15 years. The workforce in many countries is about to stop growing fairly soon. That is worrying when you look and see that, in the first decade of this century, according to research by the International Monetary Fund, around half of economic growth in Latin

America came from the growth of the workforce, whereas in Asia it was only a third. In other words, productivity is not doing its job.

To sum up, in many countries you will see a continuing slow recovery, or steady growth of 3% to 4%, which is the new normal for countries such as Chile, Peru and Colombia. There are big challenges, some of which I think Governments will start paying more attention to, because there is more awareness of the lack of competitiveness of many countries. There is awareness of the need for more trade, and I think that there are opportunities there, which I would be happy to elaborate on.

Dr Collecott: I will certainly not contradict that. What is interesting about the situation, as maybe came out from Michael's piece, is that there is a sort of interplay between external and internal factors going on. There is the global commodities boom, which has been very much influenced by the Chinese economy. Many South American countries are very dependent on minerals and agricultural commodities.

However, as Michael indicates, laid over that are the domestic political situations. Venezuela is at one extreme. However, Brazil—the country I know best—had a recession and social tensions that basically brought about a complete change of regime. We are waiting to find out quite what the very different economic policies of the new regime will mean in practice. I suspect that that country, which covers half the economy of South America, will not necessarily have steady progress and growth. It will probably continue to be a bit rocky and a bit up and down over the next few years.

Q51 **Priti Patel:** Dr Calvert, we are looking at the horizon based on the economic trends right now. Do you see any major challenges for key economies across South America? Are there any points at which you think stability will be slightly fractious, and are there any key issues that might come up that could really prompt—Venezuela aside—a wave of events?

Speaking more broadly, in terms of international institutions when it comes to economic struggles, you have the IMF, the World Bank and so on. How much are they watching out for the economic strength or resilience of economies in South America?

Dr Calvert: That is a fantastic group of questions that I will do my best to answer. On the challenges that economies other than Venezuela's face, I agree with Michael and Peter that the largest challenge will be to diversify those economies in a way that is inclusive and sustainable. I think there is a growing awareness and demand within the region, at the level of civil society, for inclusive and sustainable forms of development, which sort of stems from this era of post-neoliberalism.

We think in Latin America that there has been a return to more centrist and right-wing Governments, if that is what we want to call them, but these Governments will really have to cope with the kind of progressive forces that saw post-neoliberal Governments come to power. Those forces have not gone away and are still very active at the provincial and municipal levels and in the forests of the Amazon. If Governments are to pursue stability and economic growth at the same time, they have to do it in a way that is above all attuned to the demand for inclusivity and equality.

Q52 **Mike Gapes:** What role does ideology play in the economics, as well as the politics, of South America?

Michael Reid: That is a good question, and it gives me the opportunity to say something that I should have said in my first answer but did not. The difference in countries that are doing badly economically—Venezuela, Brazil, Argentina and the rest—is that they all abandoned basic macroeconomic stability, and the other countries did not. Those that pursued a more responsible macroeconomic framework are doing much better.

Q53 **Mike Gapes:** Which are?

Michael Reid: Which are Uruguay, Chile, Bolivia—interestingly, although it has a left-wing Government—Peru, Colombia and Mexico up until now, although we will see what happens in the future.

Q54 **Mike Gapes:** Uruguay had a left-wing Government, and Chile, under Michelle Bachelet, had a left-wing Government.

Michael Reid: Indeed.

Q55 **Mike Gapes:** So it is not necessarily about left wing or right wing.

Michael Reid: Some people think that there are two lefts in Latin America.

Mike Gapes: Exactly.

Michael Reid: You could say that Brazil, under left-wing Governments, pursued responsible macroeconomic policies, until it stopped doing so under Dilma Rousseff.

The other big factor at the moment is that we are in the midst of this marathon of elections. By the vagaries of the electoral calendar, last year and this year there are about 15 elections, including in the four most populous countries—Brazil, Mexico, Colombia and Argentina. In South America we are seeing a swing of the pendulum to the right, after a long period of left-wing hegemony. Many of these elections have taken place in a very polarised context. In Mexico and Central America, the cycle is slightly different, and the left is more ascendant.

The other thing that it is important to stress is that Chavismo, which looks more and more like a poor relation of Cuban communism, is very isolated in the region. The left has yet to make a self-criticism in those countries where it made mistakes. One has to distinguish within the right between the pragmatic centre-right Governments in Chile and Argentina, and Brazil's Government, which has so far been enormously confused. I was there three or four weeks ago. There are clearly things that are disturbing about President Bolsonaro, but there are also some things that are pragmatic and necessary. The economy needs market reform to grow again, there is no doubt.

In Mexico, President López Obrador, in a totally different way, but like Bolsonaro, presented himself as something of a saviour of the country. I would say that his only ideology is Mexican nationalism and Mexican history, which means that he is pragmatic on some things on the economy and is very dogmatic on some other things that he thinks are very important.

It is a region where many countries have learned lessons from economic history that they need to be integrated into the world—the question is how and on what terms—and that there are pay-offs to economic stability and to trying to maintain responsible macroeconomic policies. They need to do much more on competitiveness and so forth, while at the same time tackling poverty and income inequality, which have historically been drivers of populism, which has a long history in Latin America.

Mike Gapes: Does anybody want to add to that?

Dr Collecott: I have only two points to add. In summary, it seems to me that economic policy is much less driven by ideology than, say, 10 or 15 years ago, partly because of the retreat of the pink tide, if you like. If you abstract from the remains of the ALBA—the Bolivarian Alliance for the Peoples of Our America—nations, which is basically Venezuela and Bolivia, there is much more pragmatism.

That is linked with the second point, which is that, as Michael says, countries see the need to be integrated into the global economy, which is therefore bound to affect the kind of economic policies that they can sustain. That is linked back to the fact that, obviously, so many of them are reliant on the commodities markets and exports to drive their economies. The basic driver of most of their economies is that they still need to sustain development and push themselves up the income scale. Most are middle-income countries; only two are now classified as higher-income countries.

Dr Calvert: On how ideology affects economic policy, it has a lot of important impacts, but in ways that are somewhat contradictory. I would say that there are more than two lefts in Latin America; I would say that there are as many lefts as there are—or were—left-wing Governments. They are all, in some ways, so different. We can draw certain lines of similarity across them, but in some ways they are very diverse.

One of the most important ways in which they are very diverse is the way in which they balance contradictions within their policy platforms. Correa, in Ecuador, was very willing to challenge the prevailing structures in the global economy. He was happy to terminate bilateral investment treaties, starting off with treaties with Latin American Governments and other developing countries, and then, right before he left office, he terminated all of them. I think that he shares that willingness to reform global economic structures with the Governments in Bolivia and Venezuela.

However, we saw some contradictions in his economic policy. At the same time as he was terminating investment treaties, he was also really trying to welcome foreign investment into the mining and oil sectors, under different contracts that extended the state's hand in governing the sectors and in controlling the revenues from them, but in a way that was very much not responsive to the environmental and indigenous groups that saw him to power in the first place.

Q56 **Mike Gapes:** Can I go back to something that Mr Reid said when talking about Bolivia? How much is Morales's support for Maduro ideological, and how much is it pragmatic?

Michael Reid: It is absolutely ideological. Evo Morales is pragmatic in running the economy. He has run a very orthodox economic policy, which has been successful until now because the previous Government found a lot of natural gas, and so they have no foreign exchange constraint; but he is somebody who believes in the Cuban revolution and is an ideological fellow traveller of Maduro in Venezuela. There is very little practical relationship between Bolivia and Ecuador[1]; so it is not that he gets aid, or anything like that.

Q57 **Mike Gapes:** Does that mean that you could say that Morales is just a more competent ideological bedfellow of Maduro?

Michael Reid: I think that is certainly true but I think also he did come to power as a result of a very broad series of social movements in Bolivia, and he has been to some extent accountable to them, whereas Chávez came to power in Venezuela as an individual who had staged a failed military coup and become famous, and symbolically famous, as a result of that; and so the circumstances are very different.

Q58 **Mike Gapes:** Can I go back to the point about the rise of populism, and not just Brazil but elsewhere: how much is that due to a decline of support for ideology-based Administrations and Governments?

Michael Reid: Let me say, by the way, that Morales faces an election in Bolivia this year in which his candidacy is constitutionally dubious and which he might well lose, and we have to watch to see whether this election will be free and fair.

Populism in Latin America was a result of urbanisation running ahead of industrialisation; so you have these urban masses which, in Europe, were incorporated into the political process via social democracy, basically. In Latin America, because you did not have the same economic structure, populism was a way of incorporating some of these people, at least for periods, into the political process. But I think it is based around individual leaders—historically it has been—which has sometimes produced movements such as Peronism, but it is a less stable, less institutionalised ideological form than social democracy, and is much more based on individual leaders. Those individual leaders have tended to have a kind of

[1] Note from witness: should read as '…very little practical relationship between Bolivia and Venezuela.'

antagonistic approach—they need enemies. Populists need enemies; we know that, right? They tend to practise an exclusionary kind of politics at the end of the day. Populism has a long history in Latin America, going back to the ’30s. There was a cycle of populism which, in some ways, has come to an end in the region with the defeat of people like Correa in Ecuador, for example—the demise of it. I think Chavismo in Venezuela has evolved into something which is much closer to Stalinism, although it has populist elements. It is a complex matter, the relationship between populism and ideology, but it has been part of the warp and weft of Latin American history for the past 80 years.

Dr Collecott: I think the only thing I would want to add to that is, if you look at the new, the more recent, waves of populism, there is a big link with one factor, which we might have mentioned in terms of economic policy, which is just lack of good government. Quite a lot of the populism which we see stirring up has been a sort of reaction to a disillusionment with government, because Governments are not doing the things that they ought to do. Certainly, in Brazil’s case they were taxing very hard but not providing the public services that people wanted. There was that kind of disillusionment, and we had corruption piled on top of that. Therefore, populism arose as an alternative to the various ideologies that the populists would say had failed. Those leaders who adopted a populist policy had fertile ground to gather support from a very disillusioned public. Part of that lack of good government—this applies to quite a lot of South America—is clearly that the big issue of inequality has not been addressed as it ought to have been, and the lack of good governance and structures is one factor that perpetuates that.

Dr Calvert: I see ideology and populism as very much linked in the recent wave of post-neoliberalism in Latin America, but I do not think that was the only determining factor. I think it was relevant because we had these charismatic figures who championed an ideology that was well received across diverse social groups in a lot of the countries that witnessed the post-neoliberal turn. That was not just indigenous people, environmentalists and the unemployed and working class, but often the middle class were sick and tired of neoliberal policies and the philosophy championed by previous Administrations. There was a reaction against that. People were looking for a new way of thinking about the world and what economic development means and should look like. I also think that the charisma and identity of the post-neoliberal Governments mattered. Correa identified himself as mestizo, so half-indigenous and half-white, and he really championed that indigenous identity to rally support among his base. Morales did the same in Bolivia. He championed the indigenous ticket, and identity really played a strong role there as well.

Q59 **Priti Patel:** I want to unpack some of that a little more. We have already touched on poverty, income equality and the fact that South American countries and economies are desperately trying to integrate into the global economy. In terms of their own identity, how do they square that circle and bridge that gap? Poverty and income equality are still huge factors. These are effectively MICs in terms of income growth. Where do they go to consider best practice, get good governance and look for advice and support? Is that through multilateral institutions? Perhaps the World Bank could be a route for them. Is there enough self-awareness among their leaders, irrespective of the blended approach that their leadership might have, in addressing some of the fundamental issues that speak to the point about accountable politicians and good governance?

Dr Calvert: I wish I had answers to those questions, and I wish Latin American officials did as well. I know Ecuador best, so I will use that as an example. The latest Government is that of Lenín Moreno—he was Correa's pick, but he switched away from the Correa post-neoliberal ideology. He now says that he wants to promote economic growth with the right hand, and redistribute with the left, but how a Government do that with existing institutions and expectations about what development is and how it should look is a huge question. There is no easy answer; all there is now is a desire to figure out what that answer is.

New Governments who replaced the pink tide Governments will have to grapple with such questions. I don't think they are going to be able to pursue the sort of quick, shock-therapy adjustments that previous Administrations did before their rise. I think that they will have to deal with the kinds of policy traps that post-neoliberal Governments have laid out in terms of state subsidies, which are really hard to claw back. You risk electoral fallout if you say, "I am not subsidising your transportation anymore." We saw that in Brazil before the Olympics. It created a huge amount of controversy. I am sorry that I don't have an easy answer to this.

Michael Reid: It is important to stress that, in this century, contrary to the trend in many countries in other parts of the world, income inequality in Latin America has fallen significantly and steadily almost everywhere, except in Uruguay and Costa Rica, which were the most egalitarian countries. Why is that? It has a lot to do with democracy, I think. Democracy is more rooted there and has been for longer. The coverage of schooling is now much greater than it was. Therefore, the returns to education—the premium of education—are lower than they used to be.

The other thing is that growth helped, in the sense that recessions and inflation tend to be very bad for income inequality. To sustain that reduction in income inequality, you need a reform of the state in Latin America. That includes going further with education reform, getting better teachers and better quality education. It also means tackling the question of the informal economy and doing more for women to be able to work where they want to work. All of those things require the state to provide proper public services, and that is what people in the region want.

Dr Collecott: I agree with what Michael has said. I think it is almost an intractable problem, because you need reform of the state in fundamental ways and not just reform of economic policy. In some countries—particularly Brazil, which I know best—you need reform of the politics. The political structures of democratic government over the last 25 years have worked very well. But the issue is partly how those structures are being used; in other words, the nature of politics. That is partly about how they elect people and the responsibility people give to their politicians. If you have a constituency the size of São Paulo state, you are not actually very accountable for what goes on. It is also an issue of what politics is about. Frankly, politics is still extremely venal: it is about position, money and power. It is not necessarily about programmes and development.

But you also have to do other things. You have to do something structurally about the education system. It is not just the case that you have to give everybody primary education, but it must be a decent education. You also have to avoid what happens in Brazil, which is that the secondary schools are useless. Therefore, those—the middle class and upwards—who can afford it, send their kids to private schools, and then they take all the places from the state-run universities, because the state-run universities are much better than the private universities. The kids who cannot afford to go to private schools at secondary stage end up having to try to pay for private universities, where they get a much worse education. It is a ridiculous crossover.

You have to do something about the taxation system. You have to do something about the judicial system to get rid of impunity and the powers and privileges of the elites. You even have to do things about technical issues—on which I am sure Julia is much better than I am—such as monetary policy mechanisms, which actually put a huge amount of money in the pockets of the elite from the general taxpayer. You have to do all that in the face of very well-established elites, who do not really want to change any of that.

Q60 **Chris Bryant:** I wanted to ask you about the ideology of extractive industries and ownership of the land. For a start, that is important to British industrial interests in the whole of Latin America. It has also been quite a significant aspect in a lot of populist movements. One of the big rows is about how much palm oil should be grown in Colombia and all the rest of it. Discuss.

Dr Calvert: I think we could discuss this one all day.

Michael Reid: As you say, it is a very big issue. Some companies have done it well, other companies have done it badly, and some countries are better than others at regulating it. It is essential for Latin America to diversify away from dependence on commodities, but commodities will always be an important part of the economies of these countries, and mining will be an important part of the economies of countries such as Peru, Chile and Brazil. Clearly there was a massive regulatory failure in Brazil, with the collapse of the dam there, and that needs to be addressed.

On agricultural commodities, Latin America can feed the world. It has a large amount of land in relation to the population there, and agriculture is one of the areas of Latin American economies that is much more efficient and productive than the average. However, it is essential that Governments recognise that there are losers as well as winners. The winners are the whole of the population, because mining and commodity exports provide tax revenues and foreign exchange, which are essential, but there are often rather specific losers. It therefore requires political management, compensation and so forth. That is still very much a work in progress. Some countries are less bad than others, but it is a challenge for all of them.

Dr Calvert: The extractive issue is massive in the region. When we think about the post-neoliberal Governments of the last decade or so, we often hold them as the neo-extractive Governments. They relied on revenue derived from extractive industries to fund a lot of their social programmes, so in some ways they became synonymous with this extractive push in the region. Under Governments that have become more centrist, they are still placing a huge reliance on extractive industries and welcoming more foreign investment into these industries. It is tricky.

Q61 **Chris Bryant:** Can I ask you about a tiny element? In the UK, what lies underneath the ground normally belongs to whoever owns the ground above. In Latin America, it is standard that what lies below the land—the subsoil—belongs to the state, or the patria. Is that right?

Dr Calvert: In most countries, yes, but then you have to think about who owns the surface of the land. What is beneath the land is the state's, but what is on the surface of the land is, in Mexico, ejidos—small indigenous communities. Mining companies and oil companies have to negotiate very tricky concession contracts with ejidos to gain access. In the example of Goldcorp's Peñasquito mine, they had to negotiate a contract with four different ejidos, which is complicated. They did quite well in that negotiation because ejidos and indigenous groups are not well experienced, and they do not have their own kinds of knowledge about what a fair contract is.

In some ways, there is a knowledge gap there, on the behalf of a lot of these indigenous and campesino communities, about what exactly they are negotiating. In the case of Mexico, the Mexican Government have also said, "Here's a small bit of change to the mining code. If you can't negotiate with these ejidos and they're being really stubborn, I'm going to reserve the right to say that the project is in the national interest, and therefore the mining company gets access no matter what." The ejidos can protest, but the mining will go forward.

It's these conflicts between indigenous groups and environmental groups that have led to a lot of social instability that we often think of as symptomatic of an unstable investment market, but really, when you dig below the surface—that's not supposed to be a pun, but it is—of what's going on, it's often a reaction to rather unequal and unfair contracts that are being negotiated between people on the ground and mining companies and oil companies. A lot of the social conflict is a reaction to that. There is an increasing awareness among civil society groups of what should be negotiated and what is not being negotiated, and of how to pursue recourse for that kind of conflict of interests and asymmetry of power via protest and, in some instances, electing left-leaning Governments that are sympathetic to that.

Q62 **Chair:** Can I come back to a point that you were talking about, Mr Reid? Forgive me as I go backwards a bit here. We were talking about ideology and the effects of ideology on the economies of South America. How much of this can be seen as a surprise and how much of it is completely obvious from Latin American history?

Michael Reid: That is a very good question. As I said, there have been cycles of populism in the region, and I think their origins lie in extreme inequality. It's the combination of extreme inequality and extreme natural wealth. That lends itself to the discourse of, "We are rich, but you are poor because somebody is stealing the wealth"—somebody being the empire, the oligarchy or whatever.

Q63 **Chair:** Can I ask that question slightly differently and rather more precisely? If you look at Venezuela today and look at the pattern of poverty leading to the Chavista movement, leading to massive corruption and to Hugo Chávez's daughter being one of the richest people in Venezuela—indeed, one of the richest people in the world—leading to the repression, leading to Maduro and to even greater oppression, how much of that is a cycle that is completely obvious and that anybody could have seen coming from the beginning of the Chavismo movement?

Michael Reid: I think it was always clear that Chávez was not a liberal democrat.

Q64 **Chair:** So it would have required extreme naivety, bordering on stupidity, to have been a Chavista in the early days?

Michael Reid: Well, that's your conclusion. Let me say—

Q65 **Chair:** But you were not persuaded, were you, Mr Reid?

Michael Reid: Let me say that, for many years, I received criticism from people who believed deeply that Hugo Chávez was the kind of Robin Hood that Latin America needed. Those of us who were always much more sceptical received a lot of criticism in the past.

I will say that I think all of us who follow Venezuela, and many Venezuelans, underestimated the extent to which Chávez and Maduro and their regime have been prepared to hang on to power even at the cost of destroying their country, and even at the cost of expelling 5 million people.

Q66 **Chair:** So, just to be clear, you were not surprised that they did better; you were surprised that even somebody like you, Mr Reid, who wrote very presciently about the Chavista movement and its dangers—you were only surprised that it was worse than you predicted and worse than you could have expected.

Michael Reid: Let me tell you an anecdote. On many visits to Caracas, I used to talk to a wonderful man called Teodoro Petkoff, who was a left-wing, Marxist guerrilla trained in Cuba in the 1960s. He fought in Venezuela, escaped from prison several times and then founded a social democratic party. He was the Planning Minister in the last pre-Chávez

Government and the poor man had to try to impose an orthodox adjustment programme, which was not very popular. He then became a newspaper editor. He was then harassed by the Chavista regime. He died, sadly, not long ago. He always used to tell me that in those 40 years of flawed democracy in Venezuela, from '58 to '98, the Venezuelan people became democrats and imbibed a democratic political culture, and it would be very difficult for the Chávez regime to override that. In the end, sadly, he was wrong. For a long time I tended to believe, or at least hope, that that would be right. This is a regime that is certainly dictatorial and becoming in some ways totalitarian. That is out of the norm of Latin American populism.

Chair: To summarise, you were surprised on the downside, not the up.

Michael Reid: Yes. Sorry; perhaps that would have been a simpler answer.

Chair: No, yours was a very good answer. Thank you.

Q67 **Royston Smith:** Can I talk a bit more specifically about economies and countries? Why has Chile enjoyed relative economic success when the countries around it have not?

Michael Reid: I think it has been based on two things. Policy continuity, especially since the return of democracy, and a broad consensus on macroeconomic policy. The second Bachelet Government concentrated on microeconomic policy in many ways, and made some mistakes, I would say. It had essentially good intentions but the execution was poor. Associated with that policy of continuity was a greater degree of the rule of law in Chile than in many other parts of the region.

Secondly, Chile made big efforts to try and diversify their economy. Copper still accounts for around 50% of exports from Chile, depending on the price—that number goes up or down—but they have created new industries, such as wine and farmed salmon. When I was in Chile in December, I went to see a cherry farm. They now export $1 billion of cherries, mainly to China for Chinese new year, and that is from nothing, in five years. They need to do much more of that. They need to care about the environment, as all Latin American countries need to, because if agro-industry is important, then water supply is important and so on. I would say those are the two main reasons.

Dr Calvert: I would agree—absolutely. I would add that Chile is a unique case in terms of its economic restructuring, privatisation and a move towards liberalisation, which happened in the 1970s under an authoritarian Government. Pinochet was able to stifle more of the opposition that we have seen to economic restructuring than some other countries. Argentina went through rapid economic restructuring in the 1990s and it didn't end until the late 1990s, with the economic crisis. We are dealing with a few different timelines in terms of the economic path of these countries. There has also been a massive, consistent investment in education, which I think is important.

Dr Collecott: I don't have anything to add to that, except that it is easier to have good governance in smaller countries than in larger ones, and in countries that are less diverse as far as ethnic groups are concerned.

Q68 **Royston Smith:** Do you feel optimistic? For example, can Macri's austerity package save Argentina from the perpetual boom and bust it has experienced over the years?

Michael Reid: I am actually writing something about that this week. It was his kind of state of union address last Friday. I think they have made mistakes. They were too arrogant in thinking that the rest of the world would debt-finance their gradual adjustment for longer than it was prepared to. There is no doubt that the policies that they are trying to put in place are policies that will make Argentina a more successful country. In the past, he would have had no chance of re-election. Despite the fact that the economy has gone into a fairly deep recession, the peso has lost half its value since May and inflation is up 47%, he is still at 37% in the polls, not 20%. He has a chance, particularly if his opponent is Cristina Kirchner, as it may be—he would be very happy if it was.

If a moderate Peronist became the next president, much of this programme would continue. One does get a bit of a sense that people in Argentina realise the disillusionment with populism and corruption that flourished under Cristina and her late husband. There is a vaccination effect. How strong and how long-lasting it will be is hard to know. There is a lot to play for in Argentina. I am not wholly pessimistic, but I think it is very hard to win a second term on his economic record, as seen by your average Argentinian.

Dr Calvert: I echo the stats. I think Macri's timeline is not necessarily fortunate. The IMF bail-out was massive and not well received in Argentina. That was very controversial; there were huge protests. Poverty rates have risen because of the economic recession. He is going to have to prove that he can get the economy going. There will be a question of whether that can be done in time for the next election very soon. The upcoming provincial elections next week might give us a taste of whether his platform is actually popular, especially in the extractive-heavy provinces. I think the success of his economic platform will be in part based on the extent to which he can address civil society demands for poverty alleviation and greater equality. Whether that happens under his current austerity policies is the question.

Q69 **Stephen Gethins:** You have all touched on this a little, but I wonder if we can explore a bit more the extent to which economic development is being hampered by illegal activities such as the narcotics trade, illegal mining and illegal logging. I am interested to get your thoughts on that.

Michael Reid: There is no doubt that imposing the rule of law is a basic challenge for Latin America. It has 8% of the world population and 33% of the murders. Quite a lot of that is to do with organised crime and a development over the last 15 years: cocaine is no longer exported just to the US or the UK and Europe; criminal groups have developed micro-markets for consumption in all Latin American cities.

There is no doubt that insecurity is an economic impediment. I am usually not a fan of singling out small and medium businesses, because I think countries need fast-growing businesses rather than lots of small and medium businesses, but in the case of small businesses, organised crime is a big impediment. If you go to poorer areas of a Latin American city, in Mexico for example, people who have small businesses are subject to extortion all the time. That means you keep your head down—you do not want to advertise your success. That is a big problem.

Mr Bryant is out of the room, but in many ways a much bigger social and environmental problem is caused by illegal mining than by multinationals. Illegal mining is massive in Venezuela. It is significant in Colombia, Brazil and Peru. At the top of the industry, you find organised crime groups. There is no doubt that insecurity is a deterrent. For big multinationals, it is a cost you compute, but for small businesses, and the tourist industry sometimes in some places, it is a problem.

Dr Collecott: I don't have very much to add to that. As Michael said, it is a corrosive problem. Obviously, corruption and these illegal things corrode society, and corrode their sense of security and the security of the firms they rely on for driving the economy, but subject to anything Julia might add, I don't think it is a huge economic diversion of effort, if you like. Illegal logging is not huge compared with the rest of the agricultural extractive industries, or what goes on, but it does undermine social fabric. It also undermines the rule of law, particularly in outlying areas where the rule of law does not actually run and local officials may be corruptible. It is a corrosive thing from the inside, and obviously it would be much better if it was not there.

Dr Calvert: I will agree, and politely disagree with one thing. In terms of its impacts on social fabric, it really depends on what kind of illegal activity we are talking about. When it is drugs production, yes, that is bad, but often people get looped into drugs production because of a lack of opportunity elsewhere. For a lot of households and communities, it is a way of building resilience, or at least putting food on the plate in the absence of any other opportunity, so in some ways this insecurity is also a result of economic failures. It is cyclical, and how do you break that cycle between insecurity causing economic downturns or economic failures—for lack of better words—and economic failures then causing insecurity? It is complicated.

I also think we need nuance in terms of what we think about illegal activities in the economy. If we think about fruit vendors on the street who are not operating with a permit, they are really important parts of a community; they often provide the fruit to businesspeople on their way to work. They are outside the formal economy, but having them there is a cheap source of breakfast that helps people save on their household budget a little bit more. Informal economies and illegal economies grow and contract a little bit with economic downturns and economic booms, so the illegal side of the economy is in some ways what is holding a social fabric together, if we think about the fruit vendors and not the weapons salesmen and saleswomen.

Q70 **Stephen Gethins:** It is really interesting that you all touched on this. Since our job here is obviously to scrutinise the work of the Foreign and Commonwealth Office, to what extent should we be concerned about the rule of law, and is it region-specific? Obviously, it is a big push for the Foreign Office in some parts of the world, but is the rule of law or the absence of rule of law in some areas something that we should be concerned about? Dr Calvert, is it something you're going to have for the smallholders, and not something to worry about? I would be interested to hear your thoughts on that point.

Michael Reid: It is a central tenet of Latin America. I would simply say that there is a distinction between informal and illegal. A lot of informal economic activity is not actually illegal; it is just not fully legal. There are important distinctions, and the informal economy has been a fundamental survival mechanism in the region when the formal economy has not created enough jobs. The challenge of illegality, in terms of organised crime and judicial and legal structures that don't work to provide citizen security and business security, is a central tenet of Latin America, and there are places that do it better than others in the region. There are some things that can be done, but it is not easy.

Over the last few years, because there was a lot more money around from the commodity boom, there was a lot more corruption. Governments had a lot more money, and there was a lot more corruption. That is being punished in a way that is wholly new in the region—not everywhere, but in some countries. That has taken its toll on the credibility of democratic politics, but there is at any rate a hope that there will be less impunity as regards corruption and white collar crime than in the past. That requires making sure that judicial structures work properly. That is an area where the exchange of technical knowledge, best practice and so on is very important, and I know that Britain has done quite a lot on judicial systems. Obviously, the judicial systems are very different from those in the UK, because they are based on the Napoleonic code and so forth, but that is important.

Dr Collecott: I agree. The rule of law is very important, both for individuals and for the economy, because one of the problems is certainty of contract for those wanting to invest, whether they are domestic or external. I agree with Michael that there are things that outsiders such as ourselves can helpfully do.

Dr Calvert: Yes, absolutely. I echo the thoughts already given. Rule of law is a very serious issue. There are more urgent needs and more appropriate ways of doing it. Effective independent judiciaries are important, as are the consistent application of the rule of law and, where necessary, the protection of property rights. I think institutional capacity building at national and subnational levels must be prioritised. Storming in to informal markets and looking for permits is not an effective use of resources.

Q71 **Stephen Gethins:** What do you think is the biggest impediment to tackling illegality and issues around the rule of law? Is the crisis in Venezuela having a regional impact on that?

Michael Reid: Historically, the judiciary was an appendage of the Spanish or Portuguese crowns. Democracy in the last 40 years has tried to establish independent judiciaries, as Julia mentioned. There are trade-offs: an independent judiciary can resist accountability and oversight.

Secondly, it is, to use a horrible term, "the whole ecosystem" of the rule of law—police, prosecutors, judiciary, prisons. It is all those things. Joined-up government may be a somewhat tired phrase in this country, but it is something that Latin America does not do and has not done historically. It faces tasks at the moment such as Government input into improving productivity, which involves urban planning and co-ordination; the rule of law; and tackling climate change, which is a huge issue in the region.

It is interesting that opinion polls show that Latin Americans are much more conscious of climate change than people elsewhere in the world, because they are very vulnerable to it and to natural disasters. That requires joined-up government as well. The short answer to your question is that you need far more co-ordination of Government efforts and that is something that, historically, Latin American states have been very poor at.

Dr Collecott: An even shorter answer to your question is that the main impediments are probably vested interests and corruption.

Q72 **Priti Patel:** May I build on Stephen's question and the responses that you have given us? Absolutely, it is a given that there are institutional issues, governance issues, corruption, and all those problems in terms of lack of transparency and lack of rule of law et cetera. They are big countries and big economies that also have big relationships outside their region, with other countries and institutions in the world, of which the IMF is one, for example when times got hard in Argentina.

Do you think that there is enough emphasis—I touched on this in my previous questions—on multilateral institutions, not leaning in, but wanting to be supportive and do more? If I may say, from the perspective of our own Government—the Foreign and Commonwealth Office, but less so from DFID—we provide a lot of expertise and support in those areas.

Are we not doing enough with some of these countries, which are naturally going to be some of our bedfellows going forward in terms of opening up new markets for trade and development and things of that nature?

Michael Reid: The IMF agreements in Argentina and now in Ecuador are the first IMF agreements for a while in the region, because there were no balance of payments crises while the commodity boom was in full swing. Income levels in the region are much higher, and you feel it; there is more money around in societies. In many ways, Latin America is over-diagnosed. There are endless World Bank studies on what you should do. Latin American countries do not save enough, but that is another issue; they need to save much more in order to make their economies less volatile, but they can get money from China now. They can get money from all these new development banks and so on. In some cases they need to increase their tax base and in other countries they need to reduce it.

I would stress the importance of best practice, knowledge transfers and how to do things—people coming here, people going there—but that is at a technocratic level. Political leadership is essential. Latin America is still, despite Venezuela and Nicaragua, the third great region of democracy in the world after Europe and North America, and democracies require good political leadership. The politicians have a job in front of them in terms of restoring their credibility with the public. There are a lot of gravy trains and so forth there, but I think exchanging best practice is important.

Dr Collecott: I would reinforce a couple of points. There is a lot of expertise and a lot of interest from the multilateral institutions, in particular the World Bank, in what is going on in South America. They may not be the most efficient organisations in the world sometimes in pushing through projects, but they spend an awful lot of time on them. There are resources there to be drawn on—not just the World Bank, but the Inter-American Development Bank, CAFOD, etc. There are lots of sources of both finance and expertise.

To answer your question about whether we are doing enough, in a sense we can never do enough, because we can only ever act as a catalyst, a transferrer of a bit of knowledge, a stimulant of things, because, as you say, these are large countries and large economies, and £1 million or £2 million is not going to change the world. You just have to somehow find ways of stimulating that kind of interest or particular direction to go in but, as Michael suggests, getting these things addressed will fundamentally be about domestic leadership.

Dr Calvert: Absolutely. In terms of domestic leadership, we can also think a little bit more about the role of social movements in holding Governments and corporations accountable. In the face of Governments that are unwilling or unable to govern, civil society groups have been playing an increasingly important role in holding them to account and politicising instances of abuse. If we are thinking about who is leading the region in terms of democracy promotion and democratisation, it is really civil society groups, so knowledge transfer and capacity building need to happen across civil society and not just between Government institutions.

In terms of whether we are doing enough, I read a report from the Department for International Development two days ago that said that in 2016, 51% of the bilateral aid from the United Kingdom was dedicated to Africa, 42% was dedicated to Asia and just slightly over 4% was dedicated to Latin America, one region in which they could really benefit from the expertise and knowledge building that we have here in the United

Kingdom. If we are going to get in bed with them, we need to do more and it should be more than $200 million a year.

Q73 **Mike Gapes:** On a related issue, I remember having a discussion about eight years ago with British diplomats in Panama. They had been visiting various countries to deal with prison reform and law reform. They described the absolutely appalling conditions of prisons in Venezuela at that time, and also I think in Colombia. Can we do more on those kinds of issues? That is not necessarily about helping the poorest people in the poorest countries, but it is about governance and reform. I know that they were doing some work, because they were visiting British nationals who were in prison and therefore were describing the appalling conditions. Do you have any knowledge or comments on that?

Michael Reid: Sadly, in that instance, Venezuela does not have a monopoly of bad practice. Brazil is awful for prisons, and Central America, and indeed, Latin America in general. Brazil locks up far too many people. In many countries, pre-trial detention is the norm if you are poor and black, and it is a novelty if you are a former President who is accused of corruption.

There are examples of good practice. Oddly, the Dominican Republic stands out for having an extremely good prison regime—extremely enlightened. Don't ask me why. It can be done.

There is no political constituency in Latin America for prison reform and that is the heart of the problem. Precisely because they live in societies with a lot of insecurity, people tend to be very intolerant and they tend to want what they call mano duro—the iron fist.

You get some church groups that work in prisons, for example, and there are some civil society groups. I think that is probably the best way to help there. I would very much agree with what you said, Julia, about the importance of civil society, particularly in Mexico and Brazil at the moment. You have Governments in Brazil and Mexico that have leaders who claim to be strong leaders, who are, in different ways, not very friendly towards civil society. I think support for civil society in Mexico and Brazil is very, very important.

Q74 **Chris Bryant:** Is there a real danger that we will end up in Brazil with a situation like we had in Colombia, of paramilitary organisations feeling that they were operating on behalf of the President, when the President made a speech attacking human rights defenders and so on, and suddenly you found people being bumped off?

Michael Reid: I think we have the makings of that situation in Rio de Janeiro at the moment. It has emerged that one of the militias, as they are called, of former police—and former firemen, oddly—had ties to one of President Bolsonaro's sons, and seemingly had financial ties. I would say Brazilian civil society is much stronger than Mexican civil society and there is a lot of pressure for that case to be properly investigated. It is important that it is properly investigated. If it is not, there is a danger that it will be seen as a green light for paramilitarisation.

On the other hand, the armed forces are a big player in this Government, and although we can have qualms about that in many ways, they are not in favour of paramilitarisation. They don't like it at all. I think they will work against that.

Q75 **Chair:** I was going to move on to the regional groupings, which follows rather well from Priti's questions. Mercosur seems to be losing momentum. Although Bolsonaro has not pulled out, it seems to be losing its way a little bit.

Dr Calvert: Is Mercosur losing momentum? I am an optimist. I don't know whether Mercosur is losing momentum. I tend to think not, only because it has been the most effective, longest-lasting example of regionalism. It is heavily institutionalised, in terms of intergovernmental co-ordination within Mercosur, and there are various levels of decision making. The economics are very integrated—much more so than Pacific Alliance countries. The trade linkages are very surface-level, very minimal, compared with the production chains that have developed, particularly between Argentina and Brazil.

The extent to which that regional arrangement will be dissolved is questionable. I think it might be a mistake. You are definitely right to point out that there are perhaps choppy waters for it going forward, in terms of Bolsonaro's desire to reclaim sovereignty over economic policy making, and his turn towards Pacific Alliance members, but Mercosur's turn to the Pacific Alliance members was ignited before Bolsonaro. It has been in the works for about a year and a half or so. I see it maintaining itself. I think it is perhaps going to pursue a more liberal agenda, which could be good for extra-regional partners, but I don't see the institution itself as in threat at this point.

Q76 **Chair:** What about the Pacific Alliance? It appears to be growing in dominance and has been doing rather more outreach to Asia. How do you see that developing?

Dr Calvert: The Pacific Alliance was originated as a means to look towards Asia, so that is not totally surprising, but China has taken a kind of blasé approach to it. It has not necessarily engaged very well—or as much as Pacific Alliance members would have hoped, in terms of solidifying some sort of formal arrangement.

In terms of what lies ahead for the Pacific Alliance, it is making momentum in its own negotiations, but it is interesting to me that no other countries have yet signed on or pursued full membership. Canada—I'm Canadian, so I know a bit about this case—was considering it, but instead went for associate membership because some of the requirements of Pacific Alliance members are unrealistic for other countries. They are pursuing visa-free travel with the hope of free movement of people. That is not easily digested by extra-regional members and some internal regional members.

Agriculture policy is still a huge sticking point. It is a massive sticking point between the Pacific Alliance members' negotiations with New

Zealand and other regional partners. It is certainly progressing, but it is not necessarily smooth waters either.

Q77 **Chris Bryant:** Is that a view that others share?

Michael Reid: I would slightly nuance that analysis. Mercosur got to the point where it was essentially a managed trade arrangement for the car industry, and nothing else really. A few years ago, I went to the Argentine-Uruguayan border on a Saturday, and there was a line of 50 trucks. This is supposed to be a seamless customs union.

Chris Bryant: Don't go too far down that road.

Chair: We are not looking at parallels; we are just focusing on Mercosur.

Michael Reid: Let's say it wasn't functioning as a customs union.

Mike Gapes: We have managed to keep that out of the Committee today.

Michael Reid: I won't go there. The Temer Government in Brazil and the Macri Government started working on what was called business facilitation—about 70 or 80 measures to cut out all this nonsense, basically. I think that, on Mercosur, we will have to see what happens with the Argentine election. The Bolsonaro Government wants to cut the external tariff gradually on capital goods and equipment, and it wants to reduce the number of loopholes in the external tariff. If Macri wins, I think he would support that. There are strong protectionist lobbies in both Brazil and Argentina. There is a more realistic approach to Mercosur. As for the Pacific Alliance, on the other hand, it is true that it is not a natural area of integration. It is actually a group of countries, which united around this programme of international economic ideas of free trade and free markets, and co-operation and freedom of movement of people within them.

The next step is these free trade agreements with four associate members: Singapore, Australia, New Zealand and Canada. The Duque Government of Colombia, which is a weak Government, has said it does not want to negotiate any more free trade agreements with anybody, so that is on hold for now.

Chris Bryant: Including the UK.

Michael Reid: Indeed. I don't think López Obrador is particularly interested in the Pacific Alliance at all. It is not a part of Mexico and therefore is not very interesting for him. The question for the Pacific Alliance is that it has been fantastically successful as a diplomatic brand, but does it need to keep pedalling or can it stand still for a while?

Q78 **Chair:** Does it risk unravelling with the CPTPP?

Michael Reid: I think it risks unravelling more with what happens in Mexico, although I think that's unlikely. It probably will stand still for a while. We will have to see what happens with the EU and Mercosur as well. Without Britain, it looks harder—without Britain and with Bolsonaro, because Bolsonaro gives a perfect excuse to Macron to not do a deal.

Q79 **Chair:** Following on from that, given that both of you have said you foresee a bit of a stasis, possibly an unpicking of both deals that leads to stasis, are bilateral trade agreements going to become less important as well because of the movers you are talking about? Is there less likelihood of Colombia and others doing deals?

Michael Reid: Mercosur and the Bolsonaro Government essentially want to be able to do bilateral deals. They will have to square that with the other partners. Uruguay has long wanted to do bilateral deals. That may well happen. How you can have a customs union and have bilateral deals is perhaps something only—

Q80 **Chair:** That's a question we are struggling with in the UK as well.

Michael Reid: The Pacific Alliance is not a customs union, so that issue doesn't arise.

Q81 **Chair:** But it is clear that the withdrawal from economic multilateralism is growing.

Michael Reid: I don't think so. Latin America is a strong defender of the WTO.

Q82 **Chair:** Sorry—regional multilateralism.

Michael Reid: The missing step is a regional free trade agreement for everybody. That's the missing step. I don't think it will happen in the medium term.

Dr Collecott: They have tried to work towards it, but not taken many steps.

Q83 **Chair:** And there is nobody who looks like they will lead that process at the moment.

Dr Collecott: On your question about bilateral trade agreements, it is too early to know where the Bolsonaro Government will go in terms of external multilateral organisations. The rhetoric is not good. It is rather Trumpian. It is just too early to say.

Chair: Although Trump did re-sign NAFTA.

Michael Reid: And a Brazilian runs the WTO.

Q84 **Chris Bryant:** China—obviously a very significant player in the whole of Latin America. For good or ill? Can you quantify it, perhaps? We have been specific about doing South America, do you don't need to do Mexico.

Dr Calvert: In terms of quantifying it and the dialogue—Kevin Gallagher at Boston University has an amazing study on Chinese investment in Latin America, and it estimates that China has now invested $141 billion in Latin America, most of which is dedicated towards Brazil and South America, with a bit towards Ecuador and Venezuela. Whether that is a good or a bad thing is a really good question. I think there are pluses and minuses. The region needs capital to grow, but the kinds of things that China has been investing in are areas that narrow its export profile to commodities, rather than value-added goods that will create the kinds of jobs and income generation in Latin America that will allow it to grow in a sustainable and inclusive way. That is not necessarily good, but is some capital better than none? That is another question.

Since 2015, Chinese investment in the region has started to slow down because of China's own domestic economic problems. At the same time, China is beginning to show signs of diversifying its investment interests, especially away from commodity-driven growth and more towards technology-driven areas, and that could be promising for the region. China invested in a company called Chinnovation in Brazil. It is like a dating service app for Chinese investors in Brazilian companies. That is great. They are providing more capital to tech start-ups, which the region needs. Those kinds of investments are promising, but there is also a downside to the kinds of investments that China is making. Its loans come with a higher interest rate, and they are often made in exchange for oil in some countries, such as in Venezuela, which is not necessarily great. The promise of oil in terms of loans is not as cringy as we think, because it is tied to market prices and not a sheer quantity of oil, and it provides some countries with greater access to capital markets when international capital markets are closed to them. There are pluses and minuses. I do not necessarily come down on either side.

Michael Reid: I would agree with that.

Dr Collecott: I agree that there are pluses and minuses. China is a huge source of capital, as you say, for South American countries. The latest figures I saw, I think from the Brookings Institute, were for $200 billion of investment in Latin America, of which the majority is probably in South America, and the majority of that is in Brazil. There are some concerning things. I know that some of the governments in South America are also concerned about these things. Part of that is the nature of that investment and the degree to which that is in industry sectors that are considered sensitive and that they do not want too much foreign investment in. Some of those are industrial, high-technology stuff and some of them are just agricultural land. The drivers from China are clearly food and raw materials, as far as one can see.

I think there are also concerns about the degree of political leverage that some of the Chinese loans may provide. The loans are very substantial, not just in the case of Venezuela, but in Argentina and Bolivia, too. They are actually a fair proportion of that country's external debt. The figures I have seen range from 25% up to about 80% of a country's debt. That means if they wish to exert leverage, there is leverage there. Plus, some governments are concerned about Chinese commercial practices, if you like, particularly where they are going for large contracts and there is a link between the Chinese company and the Chinese Government. Their commercial practices are not exactly above board all the time.

Michael Reid: I think it is both good and bad. China is clearly in the region to stay. It is now the largest single export market for South America, but 60% of those exports are made up of soya beans, oil, iron ore and copper. There is evidence that for South America, trade with China has a smaller multiplier effect than trade with the US or Europe. On the other hand, it is an important investor in infrastructure, and Latin America needs that.

On debt, I think we both read the same study, which shows that only Venezuela and Ecuador are the questions in terms of whether it is pushing these countries over sustainability limits. There are 12 countries in Latin America that have now signed memorandums of understanding for BRI—belt and road. Only Panama is officially in it. Down the road, in five or 10 years' time, what are the geopolitical implications of that? At what point do the Chinese start saying, "You have to vote with us in international bodies," and so on? That is what would worry me.

Q85 **Chris Bryant:** Does that worry you about Chile?

Michael Reid: Chile has the oldest relationship with communist China in Latin America—it goes back to the Pinochet dictatorship—and in many ways it is the most mature relationship. Chile is in the OECD. We will see. There will be a tug of war there at some point.

Q86 **Chris Bryant:** And you don't foresee anybody defaulting?

Michael Reid: Venezuela.

Q87 **Chris Bryant:** And then what happens? That is my question, really.

Michael Reid: Exactly. Yes, the Chinese formally exercised their veto at the UN, but they have been extremely cool towards what is happening in Venezuela at the moment. They have been extremely tight-lipped compared with Russia.

Dr Calvert: One of the founding principles of Chinese foreign policy is the principle of non-interference in domestic affairs. What does that mean when there is a big default? That is going to be an interesting test of that principle. I would be surprised, frankly, if the Chinese Government interfered politically in Venezuela's internal affairs.

Q88 **Chris Bryant:** The thing is, we have found that there is a sort of edge to which China is now drifting. Yes, they have always been in favour of non-intervention, except they want to play a larger role on the world stage. There comes a point at which you go, "Oh! Er…oh, right, we're intervening now." I just wonder whether Latin America will be the place where that becomes—

Dr Collecott: Sometimes it doesn't have to be explicit.

Chris Bryant: They love non-explicit, yes.

Dr Collecott: Look at what is happening in Sri Lanka, for instance. Sri Lanka must feel beholden, to a degree, to the Chinese and not want to get itself out of line too much.

Dr Calvert: If you think about the principle of non-intervention being spread as a global norm in terms of governing the global economy and inter-state relations, that itself is reformulating inter-state relations in some ways. It is saying, "Governments back off, borders are solid, and state sovereignty prevails." If that norm became increasingly internalised by governments, that could have an important impact on China's leadership, but also on the way in which countries govern themselves.

I would like to go back to your point about commercial practice. With its foreign investment, China does have a tendency to create conditions—not political conditions but economic conditions—such as that infrastructure projects must use Chinese companies and Chinese labour. That is not a very good thing for domestic markets that are trying to create linkages backwards and forwards, and employment opportunities, via infrastructure projects, which are great sources of quick employment opportunities for domestic markets. That is going to be a point of contention, because Latin American governments see this, as do civil society groups, and they are protesting. That is potentially another con to China's growing role in the region.

Q89 **Chris Bryant:** Can I ask you a completely unrelated question? Historically, the Catholic Church has been a dominant, almost ideological, player in Latin America, and sometimes demagogic leaders have tended to encourage other Churches deliberately so as to shake that foundation a bit. That seems to be part of Bolsonaro's approach as well. Is that—more of a move towards evangelical Protestant Churches—still a theme in Latin American society?

Michael Reid: Very much so. It is a new cleavage in the region. Evangelicals, with some Catholic allies, have taken the lead in terms of making questions of lifestyle a political issue. Brazil is now 30% evangelical. The growth has been phenomenal. I think it has been from the bottom up, actually, but Bolsonaro is the first president who is an evangelical Protestant. We will see whether he seeks to favour them particularly. He certainly talks to the evangelical TV stations, and not to Globo, for example, which is the big private broadcaster in Brazil. He talks to the equivalent of Fox News, but it is evangelical.

It is a huge issue, because historically the evangelical Churches were not necessarily right-wing. In this set of elections in Costa Rica, for example, and in Brazil, they have played on the right, but it is a question whether they are going to stay there or not.

Dr Collecott: It is very complex. What Michael says is absolutely right about their growing influence politically. It is partly to do with their wealth, because some of these Churches have amassed huge fortunes. In the Brazilian case, historically it has been quite complex, because the move to evangelicalism was very much associated with the drift into the towns—the people in the shanty towns and the favelas, having come from rural and predominantly Catholic areas, being in a sense displaced into the towns and looking for something else.

The huge growth of the evangelical Church therefore came from that—as Michael said, bottom up. However, as some of the peripheries of the big towns in São Paulo and Rio de Janeiro have become settled and much more normalised, there has been a bit of a drift, at least among those people, away from the evangelical Church, perhaps to no particular adherence. There is a link in to the social dynamics that are going on, which seem to me slightly different from the political dynamics that are going on. I do not quite understand the links, I have to say.

Dr Calvert: This is not an area that I can comment on.

Chris Bryant: I love witnesses that say things like that.

Q90 **Mike Gapes:** You threw in the Sri Lanka parallel, Dr Collecott. Clearly Sri Lanka got itself so indebted to China that it effectively had to give the port that had been built. What could Venezuela give to China to deal with all this?

Chris Bryant: Maduro.

Mike Gapes: No, it was a serious question, actually—given the indebtedness.

Dr Collecott: I think a lot of the loans are backed up by oil.

Dr Calvert: Some are backed up by oil. At the moment, from my understanding, China is asking only for interest payments, not repayments on the actual debt itself. I don't know. Are there assets large enough to cover that amount of debt? That is a great question.

Q91 **Mike Gapes:** My next question is: what is the tipping in Venezuela, given that there is now clearly mass popular support for Juan Guaidó, the National Assembly and the international community are focused, and Latin American countries in general are not supportive of the Maduro regime? What is keeping the country still in his hands, and at what point does something tip over?

Michael Reid: That is the question. What is keeping him in power is a monopoly of hard power: the armed forces, his paramilitaries—the colectivos, as they are called—and Cuban intelligence and security support, which has been fundamental.

Q92 **Mike Gapes:** How much support is Cuba giving?

Michael Reid: The best estimates that one gets—they have started to deny it suddenly in the last couple of weeks—are that it is about 2,000 intelligence and security personnel, perhaps more. They keep very close tabs on commanders of troops in the Venezuelan armed forces, so you cannot actually move—the reason why there are about 100 senior military officers in jail is because any sign of active dissent is pounced on. They are not going to let what Chávez did in 1992 happen to them.

Q93 **Mike Gapes:** Is that equivalent to what the Soviet KGB officers used to do in the systems of the GDR or Czechoslovakia—being there effectively as the eyes and ears of the minders to keep people in line?

Michael Reid: That is what one is reliably told. For Cuba, Venezuela is crucial. It would be extremely helpful if there was an Administration in Washington that was still interested in promoting a thaw with Cuba and changing Cuba from within, but there is not. They see Venezuela as their frontline strategically, I think.

What will be the tipping point? We could wake up tomorrow and he is gone, but sadly, I think that is unlikely. It is interesting that, so far, Guaidó says that 700 military people have defected, but that is 700 out of 140,000. That is quite a lot in some ways, but it is not very many.

The economic situation is going to get worse now, because of sanctions not just mismanagement. Emigration has sped up. The country is being hollowed out—

Q94 **Chair:** It is worth being clear that it was not the sanctions that caused the economic collapse. The sanctions are new.

Michael Reid: That is absolutely right. The only sanctions, except those on individuals—the ones on financial transactions—came in in mid-2017 when the economy was already destroying itself. From now on, however, they are going to be a factor. That was my point. What will be the tipping point? I do not know. They are digging in. Will they crack? I fear they will not, actually.

Q95 **Mike Gapes:** In which case, will they use extreme violence to keep power?

Michael Reid: I think they will encourage people to leave. There are now probably 5 million fewer mouths to feed and 5 million fewer dissenters.

Q96 **Mike Gapes:** If I am right, there were 32 million Venezuelans, so 5 million have now left.

Michael Reid: These numbers are obviously estimates, but the latest guess is that 5 million have left since 2014-15. For the regime, I do not think that is a problem.

Q97 **Mike Gapes:** Are the people who have left mainly people of working age and those left behind older and poorer?

Michael Reid: Yes, the country's human capital is being depleted massively. There are many people of working age. It began with professionals, business people and so on, but now it is workers of all kinds. There is absenteeism. One reason that oil output is falling so steeply is that absenteeism is a huge problem in the economy.

Q98 **Chair:** We are seeing in Venezuela the arrival of Russian mercenaries to protect Maduro assets. I know that you have spoken about that in the past. Is that a form of soft invasion or colonialism, if you like, in the way that we have seen in Ukraine? Or is it merely Russia seizing what it sees as its assets and defending its interests?

Michael Reid: I think it is in Maduro's interests to try to turn this into a geopolitical conflict, rather than a conflict about democracy or dictatorship, which is how it is seen in Latin America.

Q99 **Chair:** So he has found an autocratic regime that is willing to back him.

Michael Reid: Yes. Cuba and Russia have intervened in Venezuela. Maybe the Russians think they can leverage it for some kind of strategic negotiation with the US. Maybe it is simply Putin saying, "Whatever you can do in the Ukraine, I can do in Venezuela." We will have to see how it plays out. What they can do is stiffen the backbone of the paramilitary forces that support the regime and that the regime has created, because they are quite knowledgeable about doing that.

Q100 **Chair:** But there is no real doubt that they are effectively Russian-state backed forces.

Michael Reid: That is what my colleagues who work on Russia say, and no doubt you hear it as well. I think they are deniable, but that is what they are.

Q101 **Chair:** They appear to be the Wagner group again that is operating in Libya and operated in Syria and so on.

Michael Reid: Yes.

Chair: Thank you very much indeed to all three of you. Ian Murray, the hon. Member for Edinburgh South, apologises profusely that he has been trapped on other business. Particularly because we had an expert from his university, as it were, he was very sorry not to be here. Thank you, all three of you, I am hugely grateful. It has been very interesting.