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## **India's second wave presents opportunities for Russian and Chinese vaccine diplomacy**

*Difficult choices remain between competing domestic and foreign policy objectives*

**India's** second wave has put a spanner in the works of global vaccine efforts. The WHO-led COVAX initiative – funded mostly by Western countries – and the Quad's plans to help vaccinate Southeast Asia both rely on Indian vaccine manufacturing. But with cases averaging 400,000 a day, Prime Minister **Narendra Modi's** government has virtually halted vaccine exports.

**Russia** and **China** appear well placed to capitalise on India's misfortune. China has already sent over 114 million vaccine doses overseas, while Russia has signed deals (some pending regulatory approval) for millions of doses with countries ranging from **Turkey** to **Germany**. Both geopolitical heavyweights are using the supply of vaccines for strategic gain. Russia has implicitly linked vaccine procurement to nuclear and rare earth opportunities in **Bolivia**, while there is speculation that China used the vaccine carrot to persuade **Brazil** to allow Huawei to participate in upcoming 5G auctions. **Taiwan-India** vaccine cooperation seems to have narrowly thwarted – at least for now – Chinese attempts to convince **Paraguay** to break off ties with Taipei.

At some point however, Russia and China are going to have to make difficult choices between competing objectives. China recently committed to vaccinating 40 percent of its population by June. As of May 5, China had administered 290 million individual shots, suggesting that no more than 10 percent of its population is fully vaccinated. Russia is still battling its own COVID problems, averaging over 8,500 cases a day. Yet, as of late April, both countries were administering just 0.2 vaccines shots per 100 people per day, calling into question the viability of mass vaccine exports. These vaccination rates are three times less than **France** and the **UK** and five times less than the **US**. According to the Economist Intelligence Unit, Russia and China will not achieve herd immunity before the first half and second half of 2022, respectively. There are also questions over the efficacy of Chinese vaccines. With the US potentially on track to reach herd immunity by June and the **EU's** roll-out rapidly gathering steam, Western countries will soon be far better positioned politically to show some much belated vaccine leadership.

## **Persistent budgetary pressures and political uncertainty may result in muted Latin American recovery**

*The region might miss out on the productivity benefits of better infrastructure*

The limited fiscal firepower of governments in **Latin America** coupled with the perceived political risk of investing in the region may further hinder its economic recovery. Latin America is the region worst hit by the pandemic – it accounted for approximately one quarter of total COVID-19 deaths and its combined economies contracted by 7.4 percent in 2020. A slow vaccine rollout in most countries and new virus strains are adding to the region's woes.

The region is suffering from underinvestment in infrastructure. At current trends, **Argentina** will invest approximately 2.2 percent of GDP in infrastructure in 2021, **Brazil** will invest 2.7 percent and **Mexico** 1.42 percent. To fill infrastructure gaps, the Global Infrastructure Outlook estimates that those countries require investment at 3.8 percent, 4.6 percent and 2.7 percent of GDP, respectively. Investment is well below other emerging economies such as **Indonesia** which is on track to spend 4.75 percent of GDP on infrastructure, or **India** at 4.21 percent. The Inter-American Bank estimates that Latin America and the Caribbean could

forfeit 15 percent of potential growth over the next ten years if infrastructure investment gaps persist.

With elevated debt-to-GDP ratios – 72 percent in 2020, up from 58 percent in 2019 – and limited revenues, countries such as **Brazil, Colombia, Chile** and **Peru** are seeking private investment in transport, water and renewable energy infrastructure projects. However, according to major asset services providers, delays, political uncertainty, cost overruns and weak legal systems have traditionally hindered investment. Two thirds of private companies in Argentina, **Venezuela** and **Ecuador** are reportedly operating amid chronic power failures. The region's political future is far from certain. Nine countries hold elections – five of them presidential – this year. Those elected will face the dual challenges of budget repair while attempting to stimulate growth.

### **Leaked audio tape stirs political controversy in Iran**

*Iran's moderates are an increasingly diminished political force*

A leaked audio recording of **Iranian** Foreign Minister Javid Zarif talking candidly about Iran's regional foreign policy has made Zarif a lightning rod for conservative criticism. Throughout the tape Zarif implicitly criticises **Russia's** influence on Iran's foreign policy. He also accuses the Iranian Revolutionary Guard Corps (IRGC) of operating their own foreign policy as well as undermining JCPOA (Iran nuclear deal) negotiations. Most controversial was Zarif's "unprecedented criticism" of the way in which the slain and revered former IRGC commander Qasem Soleimani manipulated Iranian diplomacy.

Nothing that Zarif said was particularly revelatory. All foreign policy decisions ultimately rest with Supreme Leader Ayatollah Khamenei and acting under Khamenei's command, the IRGC has broad discretion to ignore the advice of the foreign ministry. The criticism of Soleimani however, appears to have crossed red lines. Attacks from conservative media appear to have forced the resignation of Hesamoddin Ashena, a long-time aide of President **Hassan Rouhani**, who was targeted by conservative media for his perceived role in the tape saga.

With Presidential elections due on June 18, the political implications of the tape fallout are difficult to assess. Neither the IRGC nor perceived subservience to foreign powers are particularly popular amongst average Iranians. There is some speculation that the tape may have been deliberately leaked. If this was indeed the case, the ploy may have backfired. There have been growing calls for Zarif to resign despite Iran's Reformist camp backing him to run for Presidential office in June. This does not augur well for renewed JCPOA negotiations, where negotiators are racing to sign a deal before June's election. As with many things in Iran, only Ayatollah Khamenei has the power to make the ultimate decision.

### **New insights shed on China's loans to developing nations**

*Whilst attractive on some metrics, Chinese loans are not necessarily as unconditional as they appear*

On many counts, **China** is now the world's largest creditor, accounting for 65 percent of official bilateral debt worth hundreds of billions of dollars. Despite China's ever-growing importance as a bilateral lender, opaque lending practices amongst different lenders means that knowledge of China's loan practices is relatively limited. Researchers from **US**-based study centre AidData have sought to change this, analysing some 100 Chinese loan contracts with 24 countries worth a combined total of US\$36.6 billion.

AidData's research uncovered some fairly unusual loan features, including confidentiality clauses preventing borrowers from revealing loans terms. Other abnormalities included collateral arrangements benefiting Chinese lenders over other creditors and promises on behalf of the lender to keep the debt out of collective restructuring arrangements such as the Paris Club. Some of the contracts also appeared to be weighted heavily in favour of China, giving creditors ample discretion to cancel loans or accelerate repayments.

There are a variety of reasons why Chinese loans remain attractive for developing countries. Owing to its political conditionality and rather chequered record, the IMF is still viewed as politically toxic in some parts of the world. Chinese loans often involve lower interest rates, and less publicity and due diligence than loans from Western banks. Regardless, conditions preventing countries from seeking collective restructuring arrangements are particularly problematic at a time of high debt distress. Some of China's practices also appear to contradict Beijing's own pledges to adhere to the G20's "common framework" to help indebted and poor nations. Though allegations of "debt-trap" diplomacy have only limited empirical evidence, China's loans clearly come with potential risk.