



# Journey into darkness

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**I**n January's column (*Erupting Volcano – Political Changes in the Americas – issue 272*) I said that I felt that America's presidential election had left the American eagle with a broken wing. Will it ever fly the same again? As *Offshore Investment's* front cover last month graphically suggested, perhaps regional politics are about to chart a new course.

One thing that will not change is Carnival which comes to Latin America this month. Panama's main parade in the capital is on Cinta Costera, lined with palm trees, and which runs along the coast with the Bay of Panama as a backdrop. Colourful floats, glamorous queens, masks and costumes are in abundance, accompanied by live bands playing salsa, reggae and Panamanian folk music. It may sound grand, but nothing compares with Brazil's Rio carnival, a legendary event which attracts around 1 million people (some 25% of Panama's entire population). But what Panama lacks in festive clout, it more than makes up for in economic vibrance, certainly in 2017. While Brazil's economy will decline, Panama's will grow by at least 6% (according to the World Bank). It will be Latin America's star economic performer; but what about the region's future overall performance?

Protectionism and populist politics have gained ground in America and, of course, still hold their ground in some parts of Latin America, but not to the extent that they once did. A look at Europe shows clearly how citizens in the West seem to be losing enthusiasm for the two-party system which has separated the left and the right, but still accommodated those smaller parties of varying political shades.

An anti-immigrant and nationalist fringe has gained ground and as for protectionism, the argument against it is continually weakening amidst the widespread disillusionment over globalisation. It seems to matter not that free trade has enabled consumers (such as Mr. Trump's supporters) to buy cheaper products because of lower labour costs abroad and efficient global supply chains.

Closer to home, will the United States of America's President Trump either distance or engage his country more with the region? President Barack Obama had promised a "new chapter of engagement" with the region, strengthening trade ties, but which, I fear, like the quixotic Trans-Pacific Partnership, could be shelved by the new administration in Washington.

The brunt of future regional policies coming out of Washington will probably (initially anyway), be felt most in Mexico. The country's currency plunged dramatically to depths never reached before when it became abundantly clear that the US will renegotiate the North American Free Trade Agreement (between Canada, Mexico and the US) and, at the same time, aggressively pursue an illegal immigration policy at the Mexican border.

2017 did not start well, in terms of trade with its northern neighbour, for Mexico. As Mexicans recovered from the Christmas festivities, Ford Motor Company announced that it was not going forward with plans to build a USD1.6 billion Mexican factory and instead it now plans to make a USD700 million investment in its plant in Michigan which will create 700 jobs and, at the same time, show a "vote of confidence" in the new US economic policies, in the words of Ford's chief executive. Additionally, plans for a major new Mexican plant in San Luis Potosi, have been cancelled following President Trump's criticism of manufacturing jobs being moved across the border. Trump tweets had already complained that the General Motors Company was selling Chevrolet Cruze vehicles made in Mexico, tax-free in the US.

The image of Mexico as a competitive free-trading hub is strong. After two decades the economies of Mexico and the US have been nurtured under NAFTA and has resulted in USD600 billion of annual bilateral trade. But ominously, the incoming American president at the time declared that on his first day in office he will ask the US International Trade Commission to review

NAFTA. All of this will not help Mr. Peña Nieto, Mexico's president, who has the lowest presidential approval ratings on record. If the US/Mexican pact turns out to be as sturdy as a piñata, then it will not take too many strong blows from Washington to have its contents broken asunder.

Any US controls at the Mexican border (whether immigration or investment) will draw some sympathy from those Europeans who have been confronted with the recent horrors of terrorist attacks, notably in France and Germany, and who are likely to listen to political party leaders who espouse views that governments are losing control of national borders as well as their national identities.

Up to now most of the region's focus has been on the threatened Mexican wall rather than another type of barrier: protectionism, but which is now creeping into more conversations. A US change in South American agricultural policy might mean that not just Mexico might experience the full force of Trumpism. US producers want to see tariffs and non-tariff barriers introduced on a selected number of products from the south. If tariffs on raw materials, such as ethanol and steel for instance, were imposed, it would certainly affect Brazil, the subcontinent's engine room that is presently suffering the effects of a political and economic upheaval. Brazilians are dancing to something more sombre than the samba these days – except during Carnival – and the tempo is closer to the nineteenth century's Danse Macabre.

Argentina too, recovering from the Kirchner years, could be struck a blow if soybeans and other grains joined the US hit list. President Macri draws high marks for the speed with which he has tackled the populist policies of his predecessor, Cristina Fernández de Kirchner; not only that, his efforts have seen currency controls eased and the inflation figures now produced by the National Institute of Statistics and Census are beginning to bear some semblance of reality. And, of course, he has restored the country's access to capital markets, having successfully settled an economically debilitating dispute with holders of overdue government debt. Still, any Trump speeches or tweets that turn into trade tirades could make Argentines even more unsettled when, according to the International Monetary Fund, the economy may have shrunk by as much as 1.8% in 2016. Last October industrial production had already fallen by 8%,

year on year. One in 12 Argentines is out of work and the more reliable inflation figures still hover around 35%. Added to this, it is of concern that President Macri lacks a majority in congress, with signs that the two main opposition camps are uniting on some key issues which means that some of the reforms that he wishes (especially to the archaic labour rules and overweight bureaucracy) will be so much more difficult to achieve.

As for Venezuela, it is struggling with what has been described as the most severe economic crisis in its history. How the country will fare with President Trump is still to be seen, bearing in mind that the US is Venezuela's largest export market. During the Obama administration the verbal and offensive jibes aimed at the US, first by Hugo Chávez and now Nicolás Maduro, were met, usually, with suppressed annoyance. This might change in ways that could adversely affect the Bolivarian republic in 2017 if America's new thin-skinned president takes a different tack.

The truth is, much like the rest of the world, Latin America is still taking stock of the new occupant of the White House. It is far too early to determine with any confidence what his future moves, regionally and internationally, might be; we are travellers entering a tunnel and eagerly awaiting daylight. After all, the liberal, rule-based order that was created as a result of the second world war, and gave birth to the United Nations, the International Monetary Fund and the World Bank, is no longer in accord with 21st-century thinking. Some Latin Americans question if China, in the long-term, is not a safer bet.

Plato felt that representative government would only project short-term, and not long-term, goals, with citizens living for the moment. Joseph Schumpeter, the 19th century economist and political scientist, on the other hand, held the view that in the long term capitalism will not survive. Certainly, last year saw alarming cultural, economic, social and political changes, fuelled by the pace of technological change which enables news – of whatever kind and quality – to receive worldwide, and rapid, comment.

Trump tweets are (some say thankfully), confined to 140 characters whereas in this age of unreliable information and post-truth politics, we are faced with more characters than that – of a different kind – and who, as we have already experienced, can prove to be far more destructive.

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