

Laughter and tears

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Last January in Latin Letter (Into the Unknown – Issue 222) I expressed the view that Brazil, rather than the traditional bayonets associated with those clinging to power, had the potential of making Perù's president, Ollanta Humala, sit uncomfortable on his throne. Not just Perù. Henry Kissinger commented some 40 years ago that Brazil's very size and belief in its own uniqueness might one day make it more feared than loved; that remains to be seen, but what has become apparent is that Brazil's ambitious reach extends far beyond the region. It sees itself as having a world role to play.

Today the country has more diplomatic missions in Africa than the United Kingdom, which may come as a surprise to many readers when one reflects on the historical influence and presence the UK has had there; think of Cecil Rhodes and his dream of a Cape to Cairo railway, consolidating British interests on the continent. Not only that, Brazil recently replaced the UK as the world's sixth-largest economy. The unemployment rate is at an all-time low of 4.7%, comparing favourably with about 8.5% in the United States of America and nearly 10% in Europe. In fact, when Latin America is taken as a whole, the region's unemployment rate (a 21-year low) was 6.8% in 2011.

On many counts Sao Paulo's financial sector outshines Wall Street's, with the market value of just one bank, Itaú, exceeding those of Goldman Sachs and Morgan Stanley combined. In 2011, "Brazil risk" – the cost of protecting the country's debt against non-payment – dropped below that of the US and at the same time it received Foreign Direct Investment of USD81 billion, having only attracted USD37 billion in 2010; what's more, the ratio of external debt to Gross Domestic Product in 2011 was a healthy 12.8%.

A further indication that Brazil is steering its own course, besides its overtures in Africa, is the fact that it is in the forefront of creating regional alliances, in particular a grouping of South American nations known as the South American Union (UNASUR). The other regional power, Mexico, has been excluded from this union and, additionally, as Brazil draws other countries into continental infrastructure projects, some cries of imperialism have been heard. UNASUR is concentrating not only on cross-border projects but defence co-operation as well and it is seen as a means also of isolating Hugo Chávez, the Venezuelan president, who launched in Caracas last December the Community of Latin American and Caribbean States, with 33 countries as members without any US or Canadian involvement.

There was plenty of rhetoric at the inaugural meeting in Caracas, but little in the way of concrete results. The Bolivarian Alliance for the Peoples of Our America, which he established ten years ago, lives on with the explicit aim of shielding its members (Cuba, Bolivia, Nicaragua, Ecuador, Dominica, St. Vincent and Antigua) from the tyrant he sees on the other side of the Rio Grande. Some trade has been conducted between members of this alliance, (USD5.8 billion in 2010), but most of it has centred mainly on subsidised shipments of Venezuelan oil; both Syria and Iran have observer status.

In an effort to counter Brazil's growing influence, Mexico (not, as I mentioned, part of UNASUR) is actively promoting a trade bloc called the Alliance of the Pacific which will have its first meeting in June in Chile, following a summit last December which was held in Merida, Mexico, with participation from Colombia, Perù, Chile and Mexico (Panamá was an observer). The Alliance has plans to combine their stock exchanges and work on a timetable for the eventual elimination of tariffs on goods and services between 2020 and 2025. Colombia's trade minister, Sergio Diaz-Granados, sees membership of this alliance as essential for developing intra-regional trade but, more importantly, it will boost Latin

America's participation in the Asia-Pacific rim which he believes will be the largest and most dynamic economic zone in the next 20 years.

Much to the Venezuelan president's discomfort, President Barack Obama has his own plans to create a trading bloc along the Pacific rim which will include Mexico. He announced at the end of last year that this will mean the dramatic expansion of the present nine-member Trans-Pacific Partnership (TPP). At the moment the TPP does include Chile and Perú, but the intention is to add Japan, Canada and Mexico. All three countries have expressed their interest and this new Asia-Pacific trading bloc would eliminate customs duties and set common standards for investments, labour and environmental regulations. It is difficult to assess just what impact this would have on world trade should this plan reach fruition, but it would surely be considerable.

Bruno Ferrari, Mexico's economy secretary, has referred to "an era of trade blocs" that will begin to replace the existing system of bi-lateral free trade agreements (of which there are some 300 at the last count) and he is very enthusiastic over Mexico's participation in the TPP. Part of President Obama's argument for throwing his full weight behind the TPP is that the US is "a Pacific country"; whether folks in Boston or Baton Rouge on the East coast quite agree is another issue anymore than swathes of voters in the US would agree with him if Pacific was lower-case and described the country's current foreign policy approach.

The UK may not be a Pacific country and nor is it able to match Brazil as far as its diplomatic presence in Africa goes, but it recognises the importance of opening doors for trade in Latin America. Not surprisingly, a new consulate is being opened in Recife, located in Brazil's north-east where development is growing at a fast pace. Extra diplomats are also being sent to embassies in the capitals of some of the larger Latin American countries and William Hague, Britain's foreign secretary, has stated that there is no question of retreating from the region; quite the opposite. This will be a return to old haunts for the UK which played an important part in Latin America's independence struggles. One independence struggle, however, which persists is the one over the

Falkland Islands where sovereignty is claimed by both the UK and Argentina and which led to a war 30 years ago this month which Argentina didn't win.

Following ten years of fast growth, Latin America now accounts for nearly 9% of the world economy. Even so, the UK only supplies 1.5% of the region's imports; in 1808 the figure was 40%. By contrast, as one example, Brazil imports more from the Netherlands than it does from the UK. So the UK has a lot of work to do if it has any hope of real success, especially with the proliferation of all these regional alliances and the anticipated "era of trade blocs" – not to mention President Obama's grand Pacific ambitions. The durability (if not the final number of participants) of the TPP is not in any doubt, unlike some of Latin America's trade blocs which might eventually resemble ice blocks because they could eventually be snared by politics and self-interest, melting away to nothing.

It is certainly a sea change since 11 Latin American countries took the first steps towards forming a regional common market in 1960, the aim being to create an all-embracing Latin American Free Trade Agreement. Wags in Washington DC at the time turned the acronym for the agreement into a joke and vowed that such a plan would bring more tears than LAFTA. But 50 years on the tables have been turned as prosperity has been sapped from the US and trade across the South American continent has become a force to be reckoned with.

In last November's Latin Letter (Dances of Destiny – Issue 221) I had written about Juan Fangio, the famous Argentine racing driver who won the grand prix world championship five times and whose attributes were many. He negotiated sharp bends carefully and he perfected "the four-wheel drift" which was a controlled skid for taking corners at high speed. Fangio, however, always said that you shouldn't go faster than you have to. Not bad advice – whether you are on the race track or racing forward with trade negotiations – and Latin American countries could do worse than emulate some of the Argentine's philosophy and tactics.

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