



The foolish maidens

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In May, the month before Dilma Rousseff's trip to Washington to meet with President Barack Obama, the Brazilian president paid her first state visit to Mexico to hold talks with President Enrique Peña Nieto. Many Brazilians had hoped that their president would have been accorded similar state honours when she flew to Washington but this was not meant to be. Whilst Brazil and Mexico are Latin America's two economic giants, Brazil and the US are the two biggest economies in the Americas; easier access to each other's economies (Brazil's economy is some USD2.2 trillion) would benefit them both.

But if the red carpet was rolled out in Mexico, does it suggest that warmer relations with Brazil now stand a better chance of succeeding in the long run? Both countries have more than half of the region's population, as well as its GDP and exports, but the relationship has not been close. Promises of stimulating the trade agreement between the two countries is nothing new, and even although annual bilateral trade has doubled during the last ten years, it is nothing exciting at just over USD9 billion. Even so, Brazil is now second only to the US as the destination for Mexican foreign investment, but that said, the imbalance between the countries is stark: Mexico's USD23 billion in Brazilian investments has been reciprocated by a meagre USD2 billion.

It is not just distance which separates the two countries (I recall a flight from Mexico City to São Paulo taking nearly ten hours). There is a different language and culture, with no shared history other than, perhaps, past fractious relations with the US. More importantly, where Mexico sees its economy heavily dependent on North America, Brazil looks to South America to spread its influence and at the same time grow its trade ties overseas; unlike Mexico, it is not marinated in US influence, and this accounts for it having almost three times more diplomats. All of this suggests that regardless of regional trade pacts, Brazil will be watching closely the progress of the Trans-Pacific Partnership being promoted heavily by the US.

Mexico, however, is not totally tied to the US. After 75 years it changed its constitution in 2013 to permit foreign investment in its oil industry and China is in its sights. Chinese investment would be very welcome and in the last two years the Mexican president has met China's President Xi the same number of times (four) as he has the US president. Just as with South America (see Diplomatic Dancing – Issue 258) collaboration and co-operation were constant themes raised by President Xi in Mexico and I imagine that energy supplies will have been on the agenda.

China seems to be staying away from purchasing liquefied natural gas (LNG) from the US, favouring, for instance, a USD400 billion contract to import Russian natural gas during the next three decades. It is already the world's largest net oil importer, in 2013 overtaking the US, and since then America has continued developing its gas reserves (it's likely to become the number one producer of oil and liquefied natural gas). In fact, North America is going to be a global LNG power following huge gas discoveries and export terminals are being built in Canada and the US, all of which fits in very neatly with the imminent completion of the Panama Canal expansion which will accommodate nine-tenths of the world's LNG fleet, shortening by some ten days the shipping times between the Gulf of Mexico and East Asia.

China's attempts through its oil companies to invest in production in the US have been shunned but one of its state-owned energy giants, China National Offshore Oil Corporation, has invested USD billions in Canada – although the Canadian government has since put a financial limit on future Chinese acquisitions. Mexico will be more welcoming and, doubtless, a chilly wind of disapproval can be expected from north of the border.

Chilly or otherwise, a strong wind of change blew across Asia on 29 June when delegates from 50 countries signed articles of association in Beijing's Great Hall of the People at an Asian Infrastructure Investment Bank (AIIB) ceremony. Australia, which is also one of the world's two biggest LNG exporters and has a five-year plan to increase its output appreciably, with much of it destined for Asia, was one of the first AIIB members and also the very first to sign the articles. Another seven countries are expected to join by the end of this year and the bank's initial authorised capital of USD50 billion will eventually be doubled.

Brazil is securing its position in the AIIB and it is the only Latin American country, so far, to become a member; of the non-regional members, it is one of the largest shareholders (3.18%) behind France (3.38%) and Germany (4.48%). And although Mexico has not joined, unlike Brazil (although not alone) it is not a victim of China's weakened demand for commodities. According to the World Bank, Mexico has benefited from being Latin America's only country that has become an important cog in the world trading system. Industry, from a global perspective, requires supply chains where components come from different countries, in this case Mexico, but in much of South America technology and innovation have come second to exporting commodities. Furthermore, Mexico, both geographically and economically, is much closer to North America, and has been propelled along by being a party to the trilateral rules-based trade bloc that is the North American Free Trade Agreement.

In what was called a golden decade Latin America saw average regional growth of 4.1% which contributed immensely to the expansion of the middle class and at the same time lifted 60 million people out of poverty. How the wheel of chance can turn: last year the region had growth of 1.3% and the International Monetary Fund predicts that this year the rate might only be 0.9%, making it the fifth successive year of deceleration. Some economists believe that in future an annual growth rate of between 2-3% can be expected.

Although Brazil has not mismanaged its affairs to the extent that Argentina (prolonged stagnation and spiralling inflation) or Venezuela (perhaps inflation of 95% and the economy contracting

7% this year) has, its economy could shrink by 1.2% in 2015. The state-controlled oil behemoth, Petrobras, was developing huge new deep-sea oilfields when it was hit by a perfect storm: a corruption scandal and plunging oil prices contributed to by the shale gas boom in the US. Sagging prices have ground to a halt construction of a monumental petrochemical complex with two oil refineries and petrochemical plants, all of which had been proudly proclaimed back in 2006 by Brazil's president at the time, Luiz Inácio Lula da Silva.

My Latin teacher would invariably remind students in my class at school, usually just before term examinations, about the parable of the wise and foolish maidens. Some students would have studied diligently and so were adequately prepared but others were like the foolish maidens who did not take sufficient olive oil to burn in their lamps when they went to meet the bridegroom at a wedding. The wedding, unexpectedly, was delayed and at midnight five foolish maidens turned to five wise ones who told them that there was not enough oil for everyone; by the time the foolish maidens returned after getting extra oil, the wedding feast had begun and they were locked out. This reminds us to stay alert and build up reserves, because we do not know the day or the hour of change.

There are at least four wise South American maidens (Chile, Colombia, Peru and, to a lesser extent, Bolivia); better macroeconomic policies and lower public debt have fortified the defences. I should add that Mexico and Central America are net importers of commodities and so are also probably going to do alright in the next few years. But because the region did not fare badly during the terrible 2008-9 recession (thanks in part to deceptive comfort from China), some governments became too smug and today find the door to the banquet slammed shut in their faces.

Horace, ancient Rome's acclaimed poet, famously told us to seize the day; he also told us to mix a little foolishness with our serious plans because it is good to be silly at the right moment; the secret is to know when that is.

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